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## INTRODUCTION

My subject is the relationship between the State and Industry in Britain, with particular reference to the organization of relations between the State and private enterprise. I do not propose to attempt to deal with finance or commerce except incidentally. I do not propose to attempt to examine the corresponding relationships existing in other countries, though (particularly in the U.S.S.R. and the U.S.A.) they offer a fascinating field of comparative inquiry. In a most uncertain world I feel reasonably certain that in Britain, running true to form, we shall evolve our own particular middle-of-the-way solution. It may not be very logical. Indeed, we should perhaps be suspicious if it were. Our test, as usual, will be the practical one: will it work? My attention will be confined to that aspect.

The problem, even in this closely restricted form, is, however probably one of the most important and most difficult facing us as a nation to-day. Apart even from politics, we cannot simply return to 1939, as we tried, so disastrously, twenty-five years ago, to return to 1914. The sphere of the State must inevitably be greatly increased for at least two main reasons. The first is the practical one that in the post-war period the problems of scarcity and surplus, of balance of payment and exchange, facing the world, and Britain in particular are too great to be tackled by even the largest unaided private enterprise. The second, and ultimately the more important, is the ethical one, that the ordinary Briton demands a further phase of economic emancipation which he believes that he has earned, and that science now makes possible. He agrees with ex-Vice-President Henry Wallace in his aim to make this "the Century of the Common Man." He believes that, in some important measure at least, this can only be achieved by the Community through the organization of the State.

On the other hand, the future physical well-being of the British people depends upon the efficiency with which British industry face the great problems of the post-war world. That efficiency depends in turn, upon the force, initiative and enterprise which individual can be induced to display. That measure of enterprise cannot be provided, at any rate in measurable time, by the State alone. The State can largely determine how the cake is to be divided. If, how



ever, during this period we leave the baking mainly to the State, we shall face short commons. Organization is important; but in any human activity personnel will always be more important than organization. The right persons following the right policy will produce a suitable organization. Organization alone will produce nothing but decay.

It is recognized therefore that our main need in the economic sphere is enterprise; and that it is a problem for practical consideration to discover by what combination of Public and Private Enterprise we can secure the greatest common good.

Pronouncements are being currently made on this subject by high authorities, ranging from Trade Associations of individual industries up to bodies like the Federation of British Industries; from single Trade Unions up to the Trade Union Congress; from outstanding single industrialists up to great combinations of industrialists like "the 120" who put forward the "Industry Report" referred to in Chapter VI; from novelists up to members of the Cabinet itself. It must, therefore, be with considerable trepidation that an ordinary industrial executive should venture to state merely his own personal view.

My only justification for any contribution must lie not in any claim to outstanding ability; but simply in this:

(1) that I happen to have had a combination of actual experience both of the working of the Civil Service and of industry;

(2) that, so far as this is possible, I believe myself to be reasonably free from bias on the issues raised, or at any rate to be less tied to any particular view than the different interests which usually approach this subject; and

(3) that the single writer does not have continually to compromise to secure the agreement of colleagues; and this enables a given view at least to be freely stated.

Whether the resulting views carry conviction or not must be for the reader to judge. They are put forward without any backing of authority and must stand or fall on their merits or demerits.

I should like to stop there, having the Briton's normal distaste for autobiography. However, whilst one can enjoy a novel without any regard to the personality of the novelist, a reader of opinion would seem entitled to have some idea of the background and experience of the writer. That must at any rate be so, if these things are claimed as justification for the expression of the views in question. As briefly as possible, therefore, I must sketch out that background.

Between the two wars I have been engaged continuously as an executive in industry, with experience of small companies as well as large, and overseas as well as home. During that period I have had to cover a fairly wide range of functions. I have been fortunate, too, in that my experience has not been confined to companies in one industry; in particular as an original participant in the Management Research Groups movement in this country, I have been able to get a bird's eye view of a range of industries; and with particular reference to the organization of industry and broad problems of industrial economics. I claim no special expert knowledge; but, simply, that with some training in ordered thinking, I have been able to watch the industrial machine working from the inside.

This, however, is only one side of the penny. The other, without which I should venture no written view, is that in two wars I have seen the corresponding inside working of the machinery of government and have therefore been in a position to draw deductions and make comparisons in a way probably not usually open to students of this subject.

The permanent civil servant, by virtue of his position, is precluded from taking part in public controversy. The industrialist only rarely has experience of the inner working of the machinery of government. As I am now free to write and have had the double experience, I feel some sense of obligation. As to my civil service experience, after being discharged in the last war, I became an original member of the staff of the Ministry of Reconstruction; which was a small "thinking" Department with no executive duties. There I was Secretary of three Government Committees and assistant Secretary of a fourth. When Lord Addison (then Dr. Addison), the Minister of Reconstruction, became Minister of Health, I was transferred to that Department to work on post-war Housing. It was a big Department of a very different type, being the old Local Government Board under a new name. In this war I have been for nearly five years a director of the Ministry of Food. Not only so but my duties have been almost wholly concerned with problems of industry under government control; under circumstances which I will mention later.

Whether or not, therefore, my views carry conviction, at least I can claim to speak with inside information both of industry and of the machinery of government.

Bias is a more difficult matter! I suppose we may never be so biased as when we are confident that no bias exists. Again, I can only lay the facts before the reader and leave him to judge the results. I began as a lawyer, and whatever the disadvantages of legal train-

## INTRODUCTION

ing, at least it does teach the judicial measurement of facts, and, as I would submit, should tend to inculcate a professional standard of approach to problems of all kinds. Whilst, however, I began with that profession, my hobby (though it may appear a strange one) has always been that of social economics. I can claim in no sense to be a professional economist. I can claim, however, to have been for many years a student (and for some time a teacher) of economics, and in particular, of the economics of industry. Study of law and economics should assist towards a balanced view of the functions of industry and the State.

To industrialists who may feel that I give too great a place to the State, and take too strong a view of the duty to the consumer, I would plead guilty to being "progressive" and "reformist" in my views and no defender of either vested interests or vested prejudices. I would, however, say that no one could be more conscious than I of the virtues of true private enterprise, and of the deadening effect of misapplied State control. I would also urge that I am one of themselves, facing, as a director of companies responsible to shareholders, the same problems they are facing.

To my friends of the left-wing, I would say that I am at one with them in seeking to build upon our political democracy a real economic democracy, and that if I look askance at sweeping phrases like "the nationalization of all the means of production, distribution and exchange," it is not because I differ in ideals but in methods. At least I have some knowledge of what "nationalization" could mean; and they may care to listen to my views. In so far as I may be critical, the fact that I share their aims may add some little weight to my criticism. In case they call me a defender of the capitalist system, I can at least say that I am not and never have been a capitalist!

In short, I can say to them and any other readers that I am (and make no apology for being) that somewhat recent development, a professional industrial executive; and I put my views from that standpoint.

Finally, I must make it absolutely clear that the views expressed are, in fact, purely my personal views, and should in no sense be regarded as representing those of any industry or any business with which I may happen to be connected.

I should perhaps add that this book has been written at such times as opportunity has offered over the period 1941-45, and most of it before the present Government took office, and it should be read in the light of

# Part I. The Facts and the Alternatives

## Chapter II

### THE PROBLEM STATED

OUR problem is the proper relationship of the State to Industry in Britain ; involving, in turn, consideration of the functions which can best be performed by the State. Before, however, attempting to come directly to grips with this, may we consider how far any common measure of agreement can be reached as to the broad conditions which Industry should satisfy. May I suggest for this purpose the following propositions :

(1) Any industry, whatever its nature or form, and whether publicly or privately owned, should be so owned, organized and operated as to serve the widest interests of the community as a whole ; and should be judged (and should be content to be judged) impartially in the light of that standard.

(2) To this end, it should be conducted at the highest practicable level of efficiency which current conditions make possible.

(3) It should offer conditions for those of all grades engaged in it comparing not unfavourably with those they might expect to enjoy under any other industrial system.

(4) It should offer to consumers an adequate freedom of choice of goods of good quality at reasonable prices (such prices being measured in terms of the cost of production of a reasonably efficient producer).

(5) It should achieve this without subsidy or other equivalent assistance (except where overriding national interests call for this), and after paying a suitable return on capital, together with a reasonable reward for enterprise shown and risk borne.

(6) Taking the industrial system as a whole, it should offer the fullest opportunity to ability ; together with a status, degree of personal security and freedom of choice of occupation necessary to the proper functioning of democracy.

I venture to believe that some such propositions would be given road acceptance by good citizens of all kinds, classes and views. The divergence will come when we seek to apply them in practice. Even among citizens of goodwill and high aim, political preconceptions

will tend to enter in to cloud the issue and to interfere with the objective and scientific approach which the problem demands. There will, in particular, be two extreme views.

### THE "NATIONALIZATION" SCHOOL

One school of thought tends, quite sincerely, to regard "nationalization" (stated always in rather vague and general terms) as the only ultimate approach which will satisfy the desired ends, in every, or almost every, direction. By this school, nationalization is simply taken for granted as the solution, and the only practical questions are those of the speed and method by which this, to them, obviously desirable and satisfactory end may be achieved. The subject is surrounded by a certain "mystique"; founded, in turn, on certain Marxist doctrines, or assumed doctrines, with which the great majority of those concerned are entirely unacquainted, which most of them wouldn't understand and would probably reject with sound common sense if they did. If this sounds severe, let it be understood that it is not directed against the case for nationalization of a particular industry on its merits, but against the unscientific and mystical approach to very practical and vital issues.

The curious thing is that these same people, as individuals, appear to be just as healthily critical as any other typical Britons of the "stupid civil servant," the "petty officialdom" and the "bureaucracy" which is alleged to result from the temporary degree of nationalization enjoyed in war time, and which would inevitably become far more real and far more extensive under any blind following of universal nationalization. Under war conditions we are necessarily controlled and regulated at almost every point, and whilst we accept its inevitability at such a time, we don't like it and look forward to its early disappearance. I believe this is true of us as individuals almost irrespective of political view. During the war we looked forward not merely to freedom from danger and from black-out, but to freedom from what we vaguely called "bureaucracy." I find it difficult to believe, indeed, that the labour rank and file have relished even the much reduced degree of continued "direction" from Ministry of Labour officials which has continued after cessation of hostilities. It is difficult to believe that the typical independent British working man would, in fact, welcome in practice the degree of control over his choice of occupation and his remuneration and the careers of his children which would seem to be the logical result of widespread nationalization. This is the sort of State activity which is all very

well for others but not for ourselves! We are, indeed, citizens of no mean city, with the rights to freedoms we have bitterly earned in a war against Totalitarianism. Yet nationalization as a universal panacea would seem to lead logically and inevitably to regimentation. By this I mean, in particular, the disappearance of effective trade unionism and the necessity for the permanent direction of labour. I venture to think that, on consideration, those concerned may consider the price not worth while, and will find themselves not unsympathetic to some less sweeping solution.

So much for the freedom aspect. As regards efficiency, the need for this would, of course, be fully accepted by the nationalization school; and reference would reasonably be made to the degree of inefficiency often found in private industry, bolstered not seldom by price understandings and by suppression of patents and such-like (all of which require attention and will be subsequently discussed). But it appears to be too readily assumed that, given the elimination of private profit, efficiency will automatically follow from "the disinterested use of existing knowledge," by pure laboratory research; by bringing in the university don who has lectured on the subject, and by wide-spread round-table talks, in central, regional and local committees. These views are held in perfect good faith (and understandably so: I have held them myself) by people who have never really been in a position to form first-hand views. The hard-bitten trade union official whose business it is to discuss with employers how an industry can be enabled to pay a higher wage, tends to take a very different view. He knows the practical significance of that indefinable quality "management ability" with the drive of personal achievement behind it. I appreciate very highly the quality of disinterestedness (found in so marked a degree in the Civil Service) but "interestedness" is more likely to produce efficiency! Pure scientific discovery is an important factor, making material progress possible, but the degree of progress in an industry depends upon the efficiency with which the discovery is applied and developed in practice: and the scientist has rarely the make-up of the "enterpriser." Committees rarely achieve anything but minutes: the real contribution is made by individual experts. The information at the disposal of the university don (at any rate in the field of practical application) tends to be out of date. He may make a great contribution but only by gaining the necessary experience and ceasing to be a "don."

Efficiency in industry can be raised by pure research and assisted (particularly in its human relations) by committees and by the adoption of certain general conceptions of organization and administration. It

comes mainly, however, from the solution of a continual series of practical problems, calling day by day, and year by year for skilled judgment intensely applied. First you must discover the rare individual who has the clarity of mind, and the imagination and creative ability together with the capacity for continuous personal effort necessary to secure and to increase efficiency. This discovery is, in itself, one of the most difficult things and can be done largely only by trial and error; promoting those who show promise; and meeting the losses resulting from the errors of those who don't. Then, to achieve efficiency, there must be opportunity to experiment freely; to try different solutions, some very unorthodox; to make mistakes, sometimes very costly ones. Behind this there must be a strong inducement to undertake the persistent and grinding work involved and a willingness and ability to face the losses resulting from failure. In brief, efficiency comes from the almost infinite capacity for taking pains, coupled with the inducement to exercise this capacity. It must be hard to secure this without a prospect of personal and financial reward and a freedom to make mistakes rarely likely to be found under nationalization, as generally understood. Any failure to recognize this (unpalatable though it may be) will inevitably result in sacrifice of efficiency and in sacrifice of the widest interests of the community. Certain activities may be appropriate subjects for nationalization under appropriate conditions. Nationalization as a universal panacea might prove to be Dead Sea Fruit. As the Rt. Hon. Aneurin Bevan, M.P., has said, "those ancient slogans no longer ring a bell."

#### THE "LAISSEZ FAIRE" SCHOOL

That is one view. The other extreme may be labelled the purely *laissez faire* school. I shall be told that this no longer exists and it is true that only a very small minority of economists now hold these views. But there are still many business men and politicians who hold the view that the functions of government should as far as possible be limited to holding the ring for the completely free interplay of economic forces. It is true that they will accept the propriety of Factory Acts and similar laying down of minimum standards. Their predecessors fought their fierce rearguards on these issues and were defeated, and they recognize not only the conclusiveness of the defeat but probably the rightness of it on these issues. Each and any further encroachment of the State tends, however, to be opposed in the same way. As in the case of the "nationalize everything" school, the subject is again surrounded by a certain "mystique." Issues

which are, in fact, economic become moral. Their blood quite genuinely boils at the suggestion of any further "encroachments" by the State on the field of "free enterprise." These views, in turn, are founded on certain doctrines, or assumed doctrines, of the great economists of the 19th century; with which, again, the majority are probably quite unacquainted, and many of which they would reject if they were faced with them. Here again, also, there is the same curious cleavage between doctrine and practice. These same exponents of the rightness of unrestricted competition as a solution of our problems sometimes find no difficulty in ardent support of State interference which takes the form of tariffs, quotas and subsidies. They apparently see nothing wrong in price understandings which deprive the consumer of the virtues of free competition, and indeed frequently look to the possibility of direct or indirect State support of such understandings through the medium of Trade Associations or otherwise. In practice they might not hesitate to purchase a patent with a view to withdrawing its advantages from the consumer. Here, again, let me make it quite clear that I am not suggesting that these views are the representative views of modern industry. My own experience is that the really outstanding industrialists are every bit as progressive and open minded and conscious of their duty to the community as any other class; and far more so than the trade or political bodies which claim to represent them. The *laissez faire* views are no doubt the views of a minority. It is, however, a very vocal minority, and as political conflict must be reduced to simple issues, the citizen often appears to be offered a choice only between the two alternatives of (1) a State which in time will fill the whole sky of our lives and reduce our individual citizenship to a protected serfdom; and (2) a State which leaves our lives to be dominated by private monopoly or merely registers and supports the agreements of the great vested interests.

#### THE MIDDLE WAY

I venture to believe that neither alternative would be consistent with either true democracy or our true economic interests. I believe that the great majority desire to find some middle course which will combine stability, economic progress, and protection from exploitation, with the greatest practicable measure of personal choice and personal freedom. I believe that, by taking thought, and, above all, by freeing ourselves from the vested prejudices which are so much more powerful than vested interests, we can achieve that typically British middle way.

I for one accept unreservedly the view that we must make the



twentieth century "the century of the common man"; with all the political and economic consequences which this involves: provided of course, that the "common man" is understood to be the citizen who, in turn, whatever his capacity, is prepared to render the fullest contribution in his capacity and to recognize that distribution follows contribution.

There is nothing necessarily revolutionary in this aim. So far as Britain is concerned it involves no break with the past but is rather the speeding up of the tempo of progress. For long we have been evolving in this direction. On the political side the framework is largely completed and it only remains to discover how to use this most effectively. On the economic side it has to be admitted that our progress has lagged far behind. Yet even here great progress has been made over the past hundred years and particularly in the period since 1918. We have developed Food and Drugs Acts and other legislation to protect the consumer. We have built up a Factory Code safeguarding working conditions, particularly of women and children. We have laid down the framework of a social insurance which must now be co-ordinated and developed. We have accepted generally (though not yet universally) the principle of collective bargaining and have supplemented this by provision for statutory minimum wages where circumstances seemed specially to call for this. We have seen a steady rise in the real income of labour side by side with a large reduction in normal working hours. Many of the proposals now made for consultation with employees through Works Councils or Production Committees and for giving employees a direct share in the prosperity of the enterprise have been established practice with forward looking industrialists for at any rate two decades. We have at long last secured general agreement that large-scale unemployment should and can be conquered.

To achieve our end, therefore, we need not contemplate in this country any great and sudden break with the past. What is required is that this progress must be speeded up and be supplemented in new directions. All must be prepared to accept the fact that industry is conducted not primarily for private profit and incidentally for the benefit of the community, but primarily for the benefit of the community and only for private profit in so far as this may be in the community's interests.

Again, there is nothing really new in conception in this last view. In the last analysis it has always been indisputable. The supporters of private enterprise would urge that in fact it has justified itself in the main as the best means so far devised for serving the interests of

the community, and in particular for raising its material standard of life. They would claim that examination of the facts (and comparison of conditions in different countries in the world) would bear out this view. They would admit the deficiencies and evils which have grown out of the old system of *laissez faire* but would claim that these have been successfully and increasingly dealt with by successive measures of reform, and that the really practical issues are the further measures of reform now necessary and possible.

The new factor is the insistence, and the rightful insistence, that this conception of industry as being conducted primarily for the benefit of the community must be much more definitely and with increasing rapidity realized in practice. We are no longer prepared to wait for achievement in the long run. As Lord Keynes, I believe, has said, "in the long run we shall all be dead!" What is now asked is that this principle be established as part of the immediate post-war reconstruction. We must accept not only fuller equality of opportunity but a greater levelling up of material rewards. We must see industry not as an end but as means to an end, namely, the good life for all citizens who deserve it. Though there must always be in any system those who give directions and those who receive them, we must be satisfied that authority is based upon capacity and is exercised always with full regard to the respect due to human personality.

So far there would be a very considerable measure of agreement. It is recognized that in a democracy the interests of the community are represented by the State. It follows that it is the responsibility of the State to see that the good life is secured for deserving citizens. The practical issue is how far the ends in question will be best secured by the State taking the place of private enterprise and how far by the harnessing and over-sight of the activities of private enterprise.

It, no doubt, is the case that in certain countries which are backward in their development the driving force of enterprise can only be provided by the State, and this being so, the disadvantages of such action must be accepted as the necessary price. It may well be that there are directions in this country in which a maximum of human well-being will be best secured by further development (possibly large development) of State action in whatever may be found to be the most appropriate and effective form.

It is submitted, however, that in any community which has reached our own stage of development, it is vital to further progress that we should retain in large measure the qualities of initiative associated with private enterprise. If, however, this is accepted, it must be equally accepted that the State must lay down the minimum conditions which

must be met by any enterprise, in the interests of consumer and employee and of the State itself. Over a large part of our economic activity we must continue to face what has in fact been our central problem in this sphere for long, namely, how to reconcile the retention of all the advantages of initiative, progress and flexibility which spring from private enterprise, with the overriding necessity that such enterprise shall only be permitted so far as it does in fact secure the well-being of the community as a whole.

There should not be any question of the subordination of the well-being of the community to vested interests. Vested interests, as such, must not be allowed to stand in the way for a moment of true human well-being. Vested interests should not, however, be regarded as synonymous with "successful enterprise." Moreover, we must be clear as to how human well-being can, in fact, best be served. If, as I believe, private enterprise has still a major contribution to make to the raising of the standard of life of the common man, then we have to discover how best to control the engine of private enterprise so as to serve the widest and truest needs of the community as a whole.

Our problem then is to consider the sphere of the State in relation to industry ; with particular reference to the organization of the relationship between the State and industries still to operate under conditions of private enterprise. To do this we must look first at the machinery through which the State normally operates, namely, that of the Civil

## THE CIVIL SERVICE

IN Britain, the Government, as the executive organ of the State, operates through certain large Government Departments, at the head of each of which is a Minister responsible to the Prime Minister and to Parliament. Each Department is staffed by Civil Servants normally recruited, at any rate as regards all the more responsible grades, by severe competitive examination, and promoted in grade only on evidence of marked ability. Normally their appointments are permanent; in the sense that, except for grave misconduct, they are likely to remain until pension age. It is these we usually have in mind when we speak of the permanent Civil Service. In fact, of course, they represent only a small proportion of the total servants of the State. This total, even before the war (including industrial workers and the Postal Service) amounted to over 400,000, and is very much higher now. When, however, we speak of the part played by the permanent Civil Service in Government administration, we have in mind only a relatively small proportion even of the permanent Civil Service. The class with which we are mainly concerned is the Administrative class from whom most of the higher Civil Servants are drawn. This class (excluding the Diplomatic and Consular Service) numbers some 1,400, representing less than one-third of one per cent of State servants as a whole.

In fact, however, we are really concerned only with the higher ranks of the Administrative class, and for our purpose we may limit consideration to those of the rank of Assistant Secretary and upwards. Each Government Department has a Secretary as its permanent head, with one or more Under-Secretaries or Deputy Secretaries, a small number (say, five or six) Principal Assistant Secretaries and, say, twice as many Assistant Secretaries, the numbers varying, of course, according to the size and nature of the Department. Those of the rank of Assistant Secretary and above total some 500; and these 500 are the men whom we should have in mind when we seek to appraise the achievements and potentialities of the Civil Service. The majority of them are Honours University men, while the remainder can claim the even greater distinction of having reached the highest grade in spite of the handicap of having originally entered at a lower grade than their

fellows. Examination suggests that they represent a fair cross-section of British middle-class life, with an appreciable minority of those starting in the elementary school. Readers who would like to pursue this aspect further should refer to a book by Mr. H. E. Dale, C.B.,<sup>\*</sup> representing a very balanced and informed inside view.\*

Now the Minister in charge of a Department is alone responsible (with the Cabinet) to Parliament, not merely for broad policy but for every executive act of his Department. Constitutionally the Civil Servant does not exist. In fact, however, it is obvious that no Minister, however able and eminent, could personally undertake the management of his Department. This is the more clear when it is remembered that it is quite exceptional for a Minister to be associated for any long period with one Department. The abler he is, the more likely is he (in normal times) to be moved and promoted. Day-to-day management of a Department largely rests, therefore, in practice in the hands of senior Civil Servants, and in particular in those of the Secretary. Except in the case of peculiarly able and strong-minded Ministers, this (within certain broad limits of political principle) is also largely true of policy itself. The general reader may perhaps get the clearest picture if he thinks of the Minister as the Chairman of the Company, meeting the shareholders from time to time at Westminster, but with the Secretary as the General Manager and his immediate Civil Service subordinates as the Departmental Heads. Ministers change, and Governments change, but the steady work of the Department must continue. The day-by-day executive affairs of the State are carried on by a skilled permanent Civil Service, watched over and co-ordinated by the Treasury, not only as the spending Department but as the senior Government Department. Now let us consider how this works in practice.

We are faced at present with a strange paradox. Never was there a greater demand for extended Government action. Nevertheless, probably never was there greater criticism of Civil Servants. Yet Civil Servants are the essential instruments of Government control. Can we clarify this position?

First let us look at the nature of the criticism. At one extreme we have the suggestion that the British Civil Service is a product of British capitalism designed to serve the vital interests of capitalism, whatever superficial changes may be effected. Thus, for example, Mr. J. P. W. Mallalieu in a recent book,<sup>†</sup> in discussing the alleged failure to harness

<sup>\*</sup> *The Higher Civil Service of Great Britain*, by H. E. Dale, C.B., published by the Oxford University Press, 1941. Price 10s.

<sup>†</sup> *Passed to You, Please—Britain's Red Tape Machine at War*. Gollancz, 1942.

the country's resources behind a carefully planned drive, attributes the alleged deficiencies of the Civil Service to the fact that

"the only machinery of Government available has been framed or adapted to do just the opposite—that is to allow a small group to do as they please with the country's resources in their own interests."

The idea of Civil Servants as the docile instruments of a reactionary class is, of course, completely contrary to the facts. No one having contact with our higher Civil Service can fail to be immensely impressed with its complete integrity. Only those who have had dealings with our Civil Service and that of certain other countries can fully realize the truth of this and its importance to the community.

Moreover, this integrity is intellectual as well as moral. It must be recognized that in Government policy, national interests are sometimes subordinated to sectional interests (to labour interests sometimes, as well as to financial interests); but such decisions are made by politicians and not by Civil Servants. Whatever the deficiencies of Civil Servants, they at least can be relied upon to be objective and disinterested in their advice, and clear in their statements, to Ministers with whom final decisions lie. Mr. Mallalieu says that "it is not easy to write of complicated things in language so simple that anyone can understand it," and adds rightly, that experienced sub-editors on popular newspapers have to try it every day of their working lives. He therefore recommends a course of popular sub-editing for Civil Servants and Prime Ministers, including Mr. Churchill! Civil Servants will no doubt be content to be classed with Mr. Churchill in this context!

On the more general charge of bias, we are all biassed in some degree, but my own experience is that higher Civil Servants make a greater and a more successful effort to overcome this than probably any other class. Officially, they have no politics. I agree with Mr. H. E. Dale that individually and privately their views tend to be Left Centre, which is probably about the best place in the circumstances.

In his brief, attractive and ingenuous foreword, Mr. Mallalieu says that in the past nine years he has acquired a "fairly complete set of false values." If I seem to agree too enthusiastically with this view, it is because I feel very strongly the unfairness of continuous criticism of Civil Servants who by their very terms of appointment are precluded from defending themselves.

At the other extreme we have certain business men who regard Civil Servants as continually anxious to extend the sphere of "bureaucracy." Lord Perry, for example, was reported as stating in the House of Lords

some time ago that the Civil Service "is really a seething mass of well-trained gentlemen grabbing for power." This statement, in my experience, is as far removed from the facts as his reported view that he knew of nothing worth while that Civil Servants had then done since the war began. Lord Perry had some short experience of the Ministry of Food, and the public can form its own views, in the light of results, of the general truth of his view as applied to that Department.

Let us, however, look at the matter more broadly, with particular reference to those five hundred who, in fact, advise on the formulation of policy and share in its higher administration. These men have not only had to face their greatly increased responsibilities in existing Departments, but have had also to provide the nucleus for the great growth of Departments arising out of the War. I sometimes wonder whether the public realizes the immense burden of the task which has been shouldered. The scale of operations of single Departments, like the *Ministry of Supply* and the *Ministry of Food*, is immensely greater than that of the largest business combination of any kind anywhere in the world. The work, moreover, has had to be planned and carried out in face of difficulties greater than those ever faced by peacetime business.

Take, for example, the Ministry of Food. Every day supplies of every kind had to be available in hundreds of thousands of shops, in proper condition and at the right price, and distributed fairly among over forty-four millions of a rapidly changing civilian population. Plans for this had to be made far in advance, and had to be achieved in spite of the fall of countries of supply, the sinkings of ships (unpredictable either in number or geographical situation), the "blitzing" of cities and administrative offices, and the urgently competing demands of war necessities. The burden of this work in the Ministry fell mainly on perhaps some twenty or thirty higher Civil Servants, spared from peacetime Departments which themselves were facing burdens greater than ever before. For staff they had to rely upon personnel either "spared" by other Departments or drawn from every walk of life however remote from the problems to be handled. It is true that these officers have been advised and aided by perhaps an equal number of business men of similar rank, but the main responsibility of "administration" has rested, particularly in the earlier stages, on their shoulders. Is it credible that men working under this burden (incidentally breaking down too often under the strain) would be continually anxious to extend their sphere? In fact, the real criticism is their natural disinclination to extend their sphere even when the facts point to this as the logical and necessary step to take. So much for that.

As regards abilities, undoubtedly under the continuous seven day per week strain upon them they have made mistakes; drafted instructions that, given time, might have been clearer; failed to take action sometimes as quickly as it should have been taken. But, judged in the light of the immense size of the task and the slenderness of the resources available, the result would seem to be not so much an achievement as a miracle! I speak mainly of what I know in one Department; this being incidentally the same one as Lord Perry knew. I have no reason to believe that in greater or less degree the same is not true elsewhere.

In fact, the ability of senior Civil Servants is certainly in no way inferior to that of high-ranking business and industrial executives, but rather the contrary. In my early experience I had the opportunity of taking part in conferences where both senior Civil Servants and trade directors were present and where at the time I did not know which was which. I not only could make no generalization as to their respective abilities, but in considerable measure I could not properly place them in their respective classes. If this is taken by some (as I hope it will be) as a tribute to the ability of the Civil Servants, by the same token it should surely be a tribute to the disinterestedness of the trade directors!

Nor is it just ability to do the work of a Civil Servant. I do not suggest that the Civil Servant can deal as well with industrial problems as the industrialist. That is not so, any more than that the converse is true. I see no reason whatever, however, to believe that if the Civil Servant had begun in industry, with the same capacities, he would not have been equally successful there. I would go further and say that at any rate an appreciable minority of higher Civil Servants would succeed in industry even if entry were delayed until middle life. In the last war I had the privilege of working for a time under Sir Robert Morant, one of the ablest Civil Servants this country has ever had. His type would, of course, succeed in any walk of life at any time. As to the present generation, I may not mention names but the achievements of Departments will indicate that outstanding men are equally available now. In brief, there is no broad gulf of personal ability between Government and industry.

Does this mean, then, that Government Departments, as such, can in general, be expected to run industries successfully if called upon to do so? My answer would be a very definite negative; and this brings us to the real heart of the matter. It is urged that Government Departments (or Civil Servants) are not fitted to run industries; that they are too slow in their decisions; too much governed by precedent; too



legalistic; too fearful of change and experiment ever to provide the elasticity, flexibility, initiative, and the willingness to take risks, make mistakes and lose money, which are called for in successful industrial enterprise. I believe this to be largely true. The reasons for this however, are to be found not in comparative ability, nor in adaptability, and still less in any class bias.

#### ORGANIZATION AND PERSONNEL MANAGEMENT

One reason (in some measure, at any rate, capable of remedy) lies in organization and in personnel management. Up to a certain point of size, or degree of complexity, any organization can be managed by the personal decisions of its head. Beyond that point it must be departmentalized. Beyond a still further point any organization, to work smoothly, quickly, and effectively, must be functionalized; that is to say, it must be divided into certain logical divisions of defined character calling for specialist knowledge. To illustrate this in industry, it is practicable in a small factory (though perhaps even there not most desirable) to leave each foreman or shop head to hire his own labour and to buy his own materials. Beyond a certain point of size, however, effective results will only be secured if one division is created to handle all labour matters and another to make all purchases, the original departmental head being left to concentrate on production, or certain aspects of production. Secondly, and as a necessary complement to this, a large measure of responsibility must be delegated to each divisional head, subject only to certain final co-ordination at the top. Division of labour is one of the main factors in material progress. Division of labour beyond a certain point is only possible (or only yields effective results) with specialization and delegation of responsibility.

Now, even in peacetime, certain Government Departments have tended to employ numbers comparable with large business enterprise, but up to the outbreak of war the Civil Service (or the Treasury Department dealing with organization and personnel) were either unaware of the developments of scientific management, and of organization in particular, or were of the opinion that they did not apply, or could not be applied, to Government Departments. At any rate, so far as I am aware, functional organization had not then been adopted in any logical and comprehensive way, either amongst Government Departments as a whole or within the separate Departments; and this in spite of the recommendation of the Haldane Committee of the Ministry of Reconstruction of the last war, which reported in 1919.

Some progress has been made under pressure of war, but as the Sixteenth Report of the Select Committee on National Expenditure says:

"But, if the opportunities which existed at the end of the last war were thus largely wasted, a stimulating reminder was provided by the report of the Tomlin Commission in 1931. The wise and far-sighted recommendations which have already been quoted might have been expected to give fresh impetus to the study and review of administrative organization. Again the results were negligible. Even in the rearmament period from 1936 to 1939, when the threat of war was insistent, there was no overt sign that the Treasury or the Departments accepted the proposition that the organization of administrative machinery was a subject requiring expert and specialized study or that any lessons in the art of management could be learned from industry and commerce either in this country or abroad. To this generalization there was apparently only one belated exception—the War Office, where a Directorate-General of Progress and Statistics was created on the eve of war.

"As a result of twenty years' neglect, the outbreak of war found the Treasury insufficiently equipped to deal with the problems of administrative organization which were forced upon it."

So much for organization. With regard to delegation of responsibility, there is the fundamental difficulty (which I will deal with later) that a Minister may not, in theory, delegate his responsibility at all. A great deal that could be done in practice, however, is not done. In part this is because the outstanding importance of personnel management has not been recognized, in general, in Government service. Personnel matters are dealt with by an Establishment Division in a Ministry, and it has, too often, in the past tended to be regarded as the ugly duckling amongst divisions, and the abler men have been put in charge of other, apparently more attractive, divisions. This situation is now changing, and with appointment of abler men and a proper study by them of the principles of right selection, improvement will result.

There still remains, however, the common practice of moving Civil Servants from one job to another, frequently at short notice, without the slightest regard to the technical knowledge required for the job or to the bearing of their previous experience on their qualifications for handling the new job. I believe the reasons behind this policy are (or were) twofold. First, it is a safeguard against any departure from the

strict impartiality and integrity required from senior Civil Servants. No man knows how long he will be dealing with his present job, nor who will be sitting at his table looking at his files next week. The second is the theory that Civil Servants are "administrators" and that every job is "administration" and that, given a certain level of ability and a certain general training, any Civil Servant of a given grade can "administer" any job! I am bound to say they do it amazingly well in practice; and so long as the work is that of impartial administration of the law, the theory may well be sound. Even, however, with the stabilizing presence of myself as the responsible Trade Director dealing continuously over a period of years with one and the same division, I have found the sudden change of superiors and subordinates sufficiently disconcerting. If the Civil Servant were himself the expert dealing with a particular industry, these changes and this absence of specialization would be fatal to the efficient performance of the work. ✓ 56.11, (x8(A)), N4 H6 306

There is one other important aspect. Before the Four Years' War the position of a senior Civil Servant was an attractive one. He enjoyed an enviable social status; he had long holidays; he had short hours (even if it were not true that, like the fountains in Trafalgar Square, he played from ten to four); he had interesting and not too arduous work; and he finished with an attractive pension together, probably, with some title. It was not difficult in those circumstances to attract a high level of ability. That ability in the senior ranks is still there, but it can scarcely be relied upon to continue unless, in particular, some very substantial increases are made in the remuneration of the higher posts. Things, indeed, have changed. Social status is a far less important factor in society to-day. Hours of Civil Servants have greatly lengthened, the pressure of work has intensified, and responsibilities, as well as criticism, have increased. Above all, the senior Civil Servant has had to face the increase in cost of living following two wars, together with the burden of taxation, with no substantial improvement in his remuneration, while at the same time being aware that in business and industry remuneration has been often more than adjusted to meet this situation. It is a vital national interest that this should be remedied. Meantime we cannot rely on the same relative quality in the future as in the past.

Quite apart, therefore, from the final issue with which we still have to deal, it is submitted that the Civil Service would not be likely to be fitted to undertake the control of a particular industry unless very different ideas were introduced on organization, delegation, appointment, and remuneration of senior Civil Servants. This, in turn, would

involve a major change of view in the Treasury Department dealing with such matters; so major, indeed, that it would be optimistic (perhaps highly optimistic) to anticipate its possibility. Indeed, in certain of these matters, at least, the Treasury might be right in refusing to change.

But even if we were able to see our way through these difficulties of organization and personnel in relation to a single industry or department, we are left with a still more formidable problem. This is, that the machine of Government as a whole is enormously large and growing all the time. We can see that the branch manager, or the local director, of a large joint-stock bank has not, and cannot have, the same discretion as the head of a small private bank. Red tape, and the centralization of all important decisions in the hands of those who can only know the facts and personalities at second-hand, are the largely inevitable consequences of an enlargement in size of the business-unit. This is a reason why it is undesirable to make the business unit any larger than technical conditions require. We have always to balance the gains from large-scale operation against the loss of a widely diffused initiative. Good organization in the individual business can mitigate this element of loss but it can hardly get rid of it altogether. Nationalization of a whole industry presents a much more difficult problem. Here, in addition, we have to organize the relationship of many individual operating entities. Moreover, it is much more difficult for Government than for private business to solve these problems of organization for reasons I have stated and for further reasons I am about to state. In particular, Government performs so many different functions and these have all to be co-ordinated with the industry in question. But this is not all. What I have said relates to a single industry. If we are considering nationalization as a general policy, we have, in turn, to devise efficient and smoothly working organization to secure, in addition, co-ordination of each nationalized industry with every other nationalized industry, and the whole of them with industry and business still in private ownership. To devise such an organization is a formidable task. To find the supermen to work it would seem to be even more formidable a problem!

#### GOVERNMENT IS ADMINISTRATION OF THE LAW

But there still remains a final and most important aspect of this matter. It is this. If everything possible were done to improve organization and personnel, the Government Department would still be an inappropriate body to manage or control the general run of

industries. The reason for this does not lie in ability but in function.

A Government Department is merely an extension of the personality of the Minister. The Minister is responsible to Parliament for administering the law. The business of the Civil Servant is to administer the law: and a body appropriate to administer the law is not, and cannot be, a body appropriate to manage industry. That is the fundamental issue which is not sufficiently realized; if, indeed, it is realized at all outside the Civil Service.

There is red tape in Government Departments. There must be. There is an absence of personal responsibility. There must be. There is a slowness in making decisions. This is inevitable. It is not the slowness of the Courts of Law, but it partakes of the same nature. The Civil Servant is a part of the organ of government. Government is administration of the Law as made by Parliament. Administration of the Law is something entirely different from the running of industry. Before the Law, all men are equal. Each case must be subjected to the test of principle, however small the instance or however unimportant the circumstance. Each question must be reviewed in the light of precedent. Any decision may create a precedent with far-reaching consequences. A particular purchase overseas may create an international incident. A decision relating to an individual worker may precipitate a disastrous strike in another industry. A particular concession to an individual, justified on its merits, may cause a Government to fall. Action can be tested in the Courts. Each decision, however small, may have to be justified in Parliament, either in answer to question or even in debate. Everything is being done in the limelight of Parliament and Press. Every mistake is fair game to politician and journalist. Why was the letter or the milk, delivered late at No. 47?

Under such circumstances the successful industrial executive turned Civil Servant (if he remain) is almost obliged to display precisely the same characteristics as the professional Civil Servant: and, of course, for the same reasons. He must endeavour to relate each question to previous precedent and seek to avoid the creation of new precedents or openings for party, or other, criticism. Of course, an exceptional Minister may alter this position for the time being; but he would have to be exceptional not only in courage, ability and eloquence but exceptional also in the length of time he held the job. I wonder if it is sufficiently realized what passing ships most Ministers are! One new Minister per Department per annum is not exceptional. Lord Simon referred to them as "embarrassed phantoms who come and

## TREASURY INFLUENCE

But this is not all. Not only must every decision be capable of being immediately justified by the Minister to Parliament (even though years must elapse before time can show whether it was a wise one or not): every decision of any importance must be justified, usually in advance, to the Treasury. The significance of this cannot be appreciated by those outside. The man in the street regards the Treasury, in relation to other Government Departments, as rather in the nature of the Auditor who once a year looks over the accounts, and in the meantime safeguards the petty cash. The more instructed realize that the Treasury's proper function is much wider than this, and regard it as, in effect, the Finance Director of the Department, over-seeing the general financial wisdom of the policy pursued. But its function is much wider than this: its influence is all-pervasive.

Any decision with a financial aspect must have Treasury approval, usually in advance. Its decision, in turn, must be guided by certain clearly defined principles, founded on precedent and capable, in turn, of being justified to Parliament, not merely in debate and in answer to Parliamentary question, but by continuous meticulous examination by the Select Committee on National Expenditure and the Public Accounts Committee of Parliament itself. Accordingly, it is not surprising, in turn, that the Treasury official should play for safety. The price of a "liquorice allsort" must be settled on the same principles as that of a battleship! This is not a criticism of him as an individual: he has almost no alternative but strict orthodoxy and strict regard for precedent. Moreover, it is only fair to the Treasury to recognize that the system of Treasury control has been evolved to deal with Departments that spend, as distinct from those that earn. The Treasury's normal approach must be to consider (a) whether the proposed expenditure is within the authority of the law, and (b) whether it (and the full amount suggested) is essential. It is most important to understand this. It is in sharp distinction to the approach of industry, which asks, whether the investment (however large and however risky) is reasonably likely to justify a return on the amount of the expenditure sufficient to cover the risk of its proving to be mistaken. The Treasury are not normally concerned with the profit test. They cannot afford to be pilloried later for an expenditure which has proved to be unwise. It is only fair to the Treasury to recognize these things. I freely recognize that in their place I might well display the same characteristics. That doesn't alter the fact that few industrial enterprises under peace conditions could continue efficient, and still less could increase

their efficiency to the extent our national position demands, under Treasury control of such a character.

Moreover, Treasury influence is not limited to direct financial control. As the premier Government Department, it is mainly responsible for the selection of those to fill the key positions in other departments. Naturally in its choice it will be influenced a good deal by the extent to which the appointee is likely to prove amenable to the Treasury view. It is almost inevitable, therefore, that in the main promotion will go to the "safe" men. The outstanding exceptions will prove the rule. This may well be the right policy. It may well be the policy I should follow myself in the circumstances. At any rate I am not concerned to criticize but merely to state the facts.

The conclusions follow. To secure efficiency, the control of industry must be dynamic and flexible. Direct Government control, as we know it, tends inevitably to be static and rigid. Decisions must often be quick; frequently instant. Government decisions can only be made after a certain routine of consultation and approval, within the Department and, often, among Departments. Decisions must be made by those with direct knowledge. The organization of a Government Department is such that those with direct knowledge can only attempt to state their views in writing and pass "the paper" up through the machine. Their personal presence or consultation is rare at the level where decisions are made. Choice must be freely exercisable, so as to secure the most appropriate materials the world offers at the best price at the right time. Government must have regard to far-reaching political considerations, party and international. Risks must be taken, on a mere judgment, without possibility of proof, with the certainty of some proportion of mistakes and loss. Government Departments are not fitted to take such decisions. Progress depends on departure from precedent. Government clings to precedent. Behind every worth-while new development is a man of original mind, or unusual ability, or great driving force, who can only succeed if he is given his head and granted whatever he may regard as the right incentives of reward or of prestige. Government cannot offer this environment. Civil Servants can administer codes with admirable ability and integrity. The operation of industry is a very different matter indeed.

I have no wish to press the argument too far. There are certain particular economic activities which can, no doubt, with advantage be operated by the State. There are certain ownerships which may well with advantage be taken over by the State. There are industries which have shown themselves so unfitted for their responsibilities that State ownership must be tried as an alternative. I have no ideological

objections to extensions of State activity. I fully accept the State's right to lay down its conditions. I do submit, however, that, for the large majority of economic enterprises, State ownership should only be tried when more promising alternatives have failed, and that operation by Government Departments should be avoided at all costs; and this quite irrespective of the capacities and motives of the individual Civil Servants concerned. This is quite apart from the danger that our Civil Servants would, against their will, become our masters, and that we should develop into another Totalitarianism



## *Chapter IV*

### PUBLIC AUTHORITIES

BUT it may be objected by my friends of the Left that in questioning the wisdom and practicability of the operation of industry by Government Departments I am behind the times. I am pushing at an open door. A large mass of the population may still see the solution to our economic problems in widespread or universal "nationalization" but for the intelligentsia, in Mr. Bevan's words, this no longer "rings a bell." They do realize the objections to direct operation by Government Departments and now propose to achieve their previous ends by different methods. They realize the objections to syndicalism in the form of control and operation of our industry by the workers engaged in it; and to the government of an industry by an alliance of employers and employed. They do realize that to join representatives of conflicting interests is not to produce an instrument for effective management but will more usually result in ineffective compromise at the expense of the consumer. They feel, however, that there are acceptable intermediate solutions. One is operation by Public Authorities. The other (not excluding the first) is the more general formula of "Planning."

This chapter is concerned with the former. The characteristic of these Public Authorities is that, though they represent public as distinct from private enterprise, they are separate from, though subordinate to the State.

### LOCAL AUTHORITIES

The earlier, and well-known, form of public authority is, of course, the "Local Authority." At one time socialist thought looked to the development by them of their functions as a major part of a complete programme of ultimate general socialization. Moreover, great developments have taken place which, on the whole, have served the interests of the community well. For many years now certain industrial enterprises have been conducted, and on the whole very successfully, by local authorities. Transport, of course, was the outstanding instance of this, first with tramways and later with bus services. Then a large proportion of gas, water and electricity services have been provided in this way. Local authorities, indeed, to-day supply a large

part of the country's water, electricity, trams and trolley buses. In certain exceptional cases local authorities have provided docks and harbours, savings banks and even telephones. It will be noted, however, that practically all these activities represent services which, almost in the nature of the case, must be on a monopoly basis. Competition, with the advantages it offers, is not practicable; and there is the strongest case, therefore, for handing them over to public authority. Leaving them to local authorities has two advantages over State action. In the first place, the fact that they are run by locally elected bodies gives the opportunity for direct and informed democratic control to consumers. Secondly, in so far as circumstances call for this, the State is available as an independent supervising authority. As such, the State is acting within its normal function. Again, the fact that there are large numbers of these local authorities provides a certain standard of comparison and a spirit of emulation amongst managers and technicians, providing one of the essential virtues associated with private enterprise. They make a most important contribution; and, in the right directions, that contribution may be increased possibly quite considerably. Their operation of local monopolies, however, clearly throws little light on our main problem, in particular of dealing with industries national in scope and competitive with the rest of the world.

## PUBLIC CORPORATIONS

Nor is it these bodies which are in mind when the solution of "Public Authorities" is put forward. What is in mind here is that it is possible to create a body which is representative of the public interests and is yet free from the criticisms which can rightly be levelled against "bureaucratic" control. The adoption of the device of the "Public Corporation" is now widely advocated not merely by the Left, but by a large body of middle-of-the-road opinion, conscious of the objections both to nationalization and to uncontrolled private enterprise, and exceedingly anxious to find some agreed middle course. At first sight the Public Corporation seems a typical illogical, successful British compromise. Will it, however, provide our solution; or is it just another "mystique" based on wishful thinking? Let us look at it.

In the first place, in this case we are not confined to the realm of ideas. We have successful instances in actual operation, such as the Central Electricity Board, the London Passenger Transport Board, the Port of London Authority and the British Broadcasting Corporation.

They are characteristic British solutions and on the whole must be regarded as having so far worked well.

However, they represent operations very different from normal industry. First, as in the case of the Local Authority enterprises, they are all more or less natural monopolies. In this, and in other vital respects, they differ from ordinary industry. For instance, one of the greatest problems the ordinary manufacturer has to face is what to produce, in nature, quality, and variety. The Electricity Board know they have to produce a single standard product, electricity. The London Passenger Transport Board know they have to convey a certain number of two-legged creatures at a reasonable price from and to certain places in the most efficient vehicles which competitive private enterprise is able to put at their disposal. I do not minimize their difficulties. I merely point out that this is a very different problem from the continuous development of a wide variety of products capable of satisfying the consumer in nature, quality and price, probably in face of foreign competition. The B.B.C. is, of course, in a class by itself. It can never hope simultaneously to satisfy all its consumers! It is, however, preferred to any other alternative.

The point, however, is that any success achieved in their special spheres is no necessary evidence of the suitability of a similar approach to ordinary manufacturing industries working for an export market, or subject to foreign competition, or at a stage of development when initiative, risk and rapid technical development are called for.

Quite apart, however, from the nature of the enterprises covered, it is doubtful whether sufficient time has yet elapsed to form any final conclusion. If we take the instance of the L.P.T.B. (as closest to ordinary business enterprise) it is clear that if a great organization like the London bus service has been built (as it has) by outstanding private initiative and enterprise, and if those who have built this structure are left in continued control, the enterprise is likely to continue to be successful so long as this personal control remains. Indeed, mere momentum will secure this end for a certain time afterwards. So far as quality of management is concerned, the real test will only come when the existing top-line business or industrial executives have to be replaced. The question will then be by what type of men they will be replaced; and what will be the standards of ability set by the appointing bodies. There clearly is a strong possibility that in course of time they will tend to be replaced by those whose ability lies in safe administration rather than in enterprise.

But in any case our central dilemma still remains. To whom is the management of any Public Corporation to be ultimately responsible?

If the management is responsible to the shareholders, the shareholders in turn can only be expected to perform any function if they have some due interest in success or failure. If in the last analysis they are effective ordinary shareholders, then any Public Corporation is only so in name, and in fact is simply a private enterprise administered under whatever special controls are called for by the circumstances. If, on the other hand, the shareholders are limited to a low maximum dividend with no guarantee that even this will be met, then, whatever may happen for a time, no further capital can reasonably be expected to be provided by private investors on these terms ; and in the absence of Government investment, the only probable result is a gradual decreasing efficiency and ultimate insolvency. If, however, faced with this situation, the State guarantees the dividend, or itself holds the shares, then the Public Corporation becomes a Government enterprise ; and some degree of Parliamentary control becomes necessary with always the possibility, sooner or later, of at any rate many of the consequences applicable to administration by Government Department.

This is not to say that a Public Corporation may not be the best way to attempt to deal with a particular industry which it is decided to nationalize. The interposition of a Board with a considerable measure of freedom and less direct Treasury control would present in some degree these advantages :

(1) a better opportunity than the Civil Service Commission to select directors fitted by training and natural ability to provide the essential quality of enterprise ;

(2) the greater probability of being able to offer adequate remuneration to secure the right men ;

(3) promotion in the light of experience and functional skill, and the avoidance of those sudden disconcerting transfers usual in the Civil Service ;

(4) the possibility of a greater degree of delegation of real responsibility than is possible in a Government Department ; and

(5) some greater opportunity to take risks, make mistakes and make exceptions than is possible under direct Parliamentary control.

These are real advantages. But the Board is still an "interposition." Ultimate control would rest with Parliament operating through some Government Department ; and just to the extent that this is, in fact, exercised in practice, the more fundamental difficulties set out in the latter part of the previous chapter would still remain. Undoubtedly the Public Authority is a better instrument for the management of a

## THE FACTS AND THE ALTERNATIVE

nationalized industry than operation directly by a Government Department. But only experience will show the extent to which this method can operate in practice so as to permit real enterprise in industry. We will return to this subject later.

## Chapter V

### PLANNING

I SAID there were two present-day alternatives to nationalization. The second is that of "Planning." It, too, is put forward as almost a universal panacea by quite a wide range of opinion from left to centre. It, too, has a very decided "mystique." But what exactly is meant? Is it just another attempt to avoid the pain of reasoned thought?

The word commends itself. It suggests knowledge, capacity and purpose. Planning is obviously desirable. We none of us desire to live in chaos. Civilization itself suggests the planned, the ordered, life. But what are we going to plan; to what degree are we to plan; what is likely to be the effect on the plannees (that is to say, upon you and me); and who are to be the planners?

A great deal of our life is planned already, even in peacetime. In war, the field of free choice is limited indeed. Most of at any rate this peacetime planning was a good thing. There is little doubt that it can be extended with advantage. Even the most ardent individualist accepts the advantage of the rule of the road! Isn't it a question of sphere and of degree? All the great mass of social legislation, dealing with such matters as minimum conditions of employment, and minimum conditions of quality, represent planning by the community through the instrument of the State, even though this planning may be largely negative in character. We want to extend and to refine this kind of planning. Many things essential to our economic well-being are clearly beyond the power of any private enterprise. The State must clearly deal with such matters as currencies, with tariffs, with large problems of unbalance of national indebtedness. The State now accepts the responsibility for maintaining a certain volume of employment. Some of us have been urging this responsibility for a good many years. I had the privilege, in 1929, of writing "We Can Conquer Unemployment," as a junior member of a distinguished group which included Lord Keynes. Then it was a highly controversial view! Now it is accepted that the responsibility for full employment cannot be left to "unplanned" private enterprise. Again the community is clearly concerned with the location of industry, both in the sense of geographical area and in its more detailed aspect of town planning.

There can clearly be no objection to planning, therefore, in prin-

ciple. But what are we going to plan, and how far are we going to plan? Take the location of industry as an example. It is clearly desirable that the State should make available information as to where in the considered judgment of experts, development of industry would be desirable or undesirable. Often the elucidation of the facts will achieve the desired result. Clearly the State can go further and offer advice and inducements. There may clearly be circumstances in which the State will be justified in forbidding further development in an area. All this still leaves the final responsibility with the industrialist. But the Rubicon is crossed when the State orders a particular enterprise to locate itself at a given place against the better judgment of those concerned. Just at that point the State becomes responsible for the success or failure of that enterprise. Planning at that point would represent a share in the operation of industry.

In the same way the State is clearly entitled to lay down, for the benefit of the necessarily uninstructed consumer, certain minimum standards of quality of goods, and certain standards of truth in presentation of goods. It is conceivable that there may be an advantage in requiring a particular industry (which presumably would usually mean all individual businesses in that industry) to make available a certain minimum proportion of bread and butter products of good value for the poorer consumer. The practical difficulties are great, but the point can be accepted in principle. But the moment the State determines what specific goods are to be made, it takes away an essential element of private enterprise. The rights of enterprise can be suitably limited and restricted, whilst still leaving the essential core of free decision on which initiative, efficiency and progress depend. Once the State begins to make those essential decisions conditional upon prior approval by a State official, we have to that extent nationalized that industry; and we must then, in the necessary degree, face all the difficulties of nationalization. Indeed, this "semi-nationalization" might well involve all the disadvantages of nationalization with none of its advantages.

We must fairly ask ourselves what we mean by planning in relation to industry. If we mean that agents of the State are to make decisions directly affecting the success of enterprise, then let us recognize that by planning we mean a certain degree of nationalization under another name. This question of whether or not, when all the background conditions have been laid down, an ultimate free decision does or does not remain with the enterpriser is fundamental.

But next, how far do we want to be planned? How far are we as consumers or producers prepared to have our lives planned for us?

Some degree of planning we are prepared to accept at all times, and a great deal more in times of national emergency. How far are we prepared as consumers to have our choice made for us by the State's experts? Clearly we will welcome this in directions like minimum standards of quality in milk, and in other similar directions where in any case we cannot as individuals exercise an instructed judgment. But are we prepared to have our clothes, our houses, our food, our entertainments, all planned for us by benevolent experts? Are we to be confined not temporarily but permanently to some kind of points rationing? Isn't it common knowledge that the exercise of reasonably free consumer choice is not only desirable in relation to current supply but tends to lead, by competition in initiative and enterprise, to the rapid development of more desirable consumer satisfactions that might not occur to, or not commend themselves to, the experts: particularly as the general body of an industry might often be very willing to side with the experts in avoiding the trouble and risk of change and development?

The point is even more important to us as producers. The owners of the less progressive enterprises might welcome a stabilization of product and profit. But what of us as employees? Are we prepared as a regular thing (and not as a necessary temporary continuation of emergency) to be "directed" as to the place where we shall work, as to the industry and job in which we and our children are to be employed, and as to the terms upon which we are to be employed? This is the ultimate logic of planning, if by this we mean power of the State to direct our industrial lives. Is it any use directing an enterprise to some place unless in the last resort there is power to direct labour there also? Even in wartime it is wise to look upon direction as a last resort. It is best to succeed by persuasion. I speak with experience. Isn't that likely to be far more true in Peacetime? Sturdy British independence of all classes has been a vital factor in winning the war. What is likely to be its reaction to such direction? How would such conditions differ from Totalitarianism? And if, in fact, all we intend is persuasion of employees, why not persuasion and guidance of industrialists also, except, of course, in any particular cases where actual nationalization of a particular industry or activity is called for on its merits? If this is what we do mean then let us accept reasonable planning; but let us recognize its limitations.

But if we really do mean planning in the sense of direction of our economic life, who are to be the planners? It has for long been proposed that the State should have available an Economic General Staff. This would collect and collate all essential information bearing



on the economic well-being of the nation. It would advise the Government of the day, and particular Government Departments, on broad questions of economic policy. It might, where necessary, formulate specific proposals for Government action within the appropriate sphere of government ; and it might take a broadening view of that sphere. It would make a suitable selection of its information available for the guidance of the public, and of industry in particular. In this way the different sections of industry could plan more wisely in the light of facts. The facts, and intelligent forecasts based upon those facts, would be used to guide industry along wise lines, with less waste and more stability than in the past.

All this would be a new and important development in the sphere of the State. It shocks certain individualists, but I certainly would fully accept it. Moreover, I have the privilege of knowing quite a number of the very able men who would be likely to constitute the core of that General Staff, and I would look forward to a very successful performance of such functions. I would regard that as desirable Planning by the State.

But those who advocate planning as "ringing the bell" in place of nationalization must mean very much more than that. When they declaim on the inefficiency of private enterprise, and urge that its efforts are vitiated by the sordid motive of private profit, and then propound "planning" as the cure, they at any rate must perforce contemplate that the "planning body" will, in fact, be a directing body. It will replace inefficiency (in the choice of textile patterns for Indians, in the selection and operation of tinplate rolling plant, in the design of furniture, in the operation of bus services, in the selection of films, in the preparation of sausages) by efficiency. How? Only by direction arising out of control. It will still be direction even if the instructions are called "directives"! Indeed, carried to its logical conclusion, this new Planning body is to be "a committee to take this sorry scheme of industry entire, and to remould it nearer to the heart's desire"!

The question I ask myself is a very practical one. Assuming that something like this is our object, can we find the men to do it? I am pretty sure that the distinguished economists likely to form the Economic General Staff would be the first to disclaim possession of the necessary knowledge and capacity. They would be the first to recognize that the job called for wide and intimate knowledge of the actual operation of industry. I have had the privilege of knowing a few of the ablest executives in British industry. I find them mostly quite modest people, rather conscious of their limitations, finding the wide

problems of their own businesses quite a sufficient handful, and hesitant about laying down plans even for their own particular industry. I think they would disclaim ability to do the vast job. I have known a number of trade union leaders, and I think, too, that they would ask to be excused. I have a great respect for certain able Cabinet Ministers whom I have known, in different parties, and I cannot believe that they would show any desire to stake their reputations on such a task. I feel rather fearful, therefore, that we might be left with the pure theorists, the long-haired young men and the short-haired young women. They could do such a lot of damage before they began to learn something of the elements of the job. As Lord Woolton has said, a great many people who talk about the efficiency of British industry are able to approach the subject with a mind unbiassed by experience!

The difficulty is that so few people who are not actually in control of industry really know, or can know, the actual nature of the problems, their range and intricacy; and the qualities required to deal with them. This is well illustrated by the critic's constant assumption that the major questions in industry are dealt with by "managers" (they in turn being frequently treated as synonymous with "technicians") and that if only they could be organized into a strong trade union and induced to combine with "the workers" the community could afford to dispense with "the capitalists." This is so partial and ingenuous an analysis. I have the highest regard for the contribution made by the managers. I am glad that their contribution is being recognized increasingly by the Labour Movement. I would very much wish that managers would all regard their subordinates as their colleagues. I agree that the capital owner, as such, usually makes little contribution to the effective operation of industry.

But managers, in the sense understood by the critics, are the second line on the organization chart. The managers carry out policy. The vital function in industry is the formulation of policy. It is a difficult thing to manage a workshop employing a thousand men. There are, however, a score of men who can manage such a shop successfully to the one man who can conceive the product while the site of the workshop is still a green field. The vital contribution is that indefinable thing called enterprise. The key man in any business is not the man who can manage a particular going concern, but the man who can conceive of the concern before it is going. The quality is something akin to genius rather than intellect. It is a fortunate business which produces one each decade. His temperament may be artistic rather than business-like. He is the man who decides that something shall

be done, and smilingly continues to insist that it shall be done when all the managers and the technicians have presented the most cogent reasons why it can't possibly be done. It is done. It succeeds. We incorporate it in our existing practice and take it for granted, forget its origin, and talk about setting up a committee of intellectuals to "plan" our industrial future on better lines, looking to a better supply of "technicians" to maintain our future progress in the markets of the world, on which we as a small island people depend.

It won't do. If we are going to nationalize industries, let us take them carefully one by one and satisfy ourselves in each case that we see our way with reasonable safety to continue to reach at least as high a level of progressive efficiency and technical progress as has been reached in the past; and in particular that we can provide conditions in which the exceptional man, the unorthodox man, the difficult but essential bed-fellow, can operate effectively. Apart from this let us realize that any "planning" outside the present proper (widening) sphere of the State must in practice be confined to painting the broad background, laying down the governing conditions, stating the facts and probable future facts, setting the objectives, co-ordinating the inter-relation of industries, and seeing that the results are in the broad interests of the consumer and the community as a whole.

## SELF GOVERNMENT OF INDUSTRY

THERE is one other major alternative form of organization of industry, so attractive at first sight and so widely supported that we cannot neglect its separate consideration.

Briefly, the general text is "Leave it to those who know. Let the experts in each industry get together to deal with the problems of that industry. You want an industry to be run efficiently but without the waste, the friction, the loss, the bankruptcy, the labour problems involved in real competitive private enterprise? Very well, 'Leave it to George'! Don't worry about all the intricate problems of economics, finance and politics associated with nationalization or its alternatives. Get on with your football matches or your gardening. Leave it to those who know. We will deliver the goods. We have the interests of the community at heart. All we want is security and adequate remuneration, and these are entirely reasonable aims."

Schemes falling under this broad heading vary from the most disinterested, undoubtedly put forward by men of the highest ideals and integrity, with the genuine intention of serving the community, to the most "interested," put forward obviously simply as a suitable cover for protecting inefficiency at the expense of the consumer. And there are all kinds of intermediate degrees.

As I say, the approach itself is at any rate superficially attractive. Further, up to a certain point it is undoubtedly well-founded. The operation of the individual units in an industry should be left to the experts. There are many activities in an industry which can with advantage to the industry and the community be done upon a co-operative basis. These include such matters as general research, interchange of information, a proper degree of standardization, a setting of voluntary minimum standards of quality or performance, co-operation in export markets, and so on. Valuable work is being done by many of the 2,500 or so Trade Associations in British industry under such headings as these. There is great value, too, in a representative Trade Association which can be consulted by Government and can express the views of the industry to Government. There may, indeed, sometimes be a case for an industry dealing, in ways that are

not anti-social and under proper safeguards, with some of the effects of competition which are harmful not only in the first instance to producers, but in the longer run to the community. Competition is a good thing but this doesn't mean it can never have bad effects. Fire is a good thing ; but it can get out of hand.

Again, there is everything to be said for machinery for joint consultation on matters of wages and conditions of employment. It is far better for enlightened industry to join with well-organized Trade Unions in National Joint Industrial Councils to negotiate such matters than to leave them either to individual disputes or to State arbitration. The joint facing of the economic issues of the industry tends to lead to greater mutual understanding and respect, and to the discovery of solutions capable of benefiting the worker without unfairness to other workers outside the industry and without detriment to consumers as a whole.

So far so good. But there is a point at which such association becomes a bad thing. It is widely alleged, and it may be true, that a considerable part of British industry is honeycombed with price rings and understandings and with practical monopolies which are not only unfair to the consumer of the particular goods or services but go to the very roots of British national efficiency. It is not simply that certain prices may be too high, but that, behind these shelters, inefficiency may be at a premium.

There may be (I believe there is) a great contribution to be made by genuine competitive private enterprise (operating within proper minimum conditions laid down by the State). There can be no case for monopolistic private enterprise working *in camera*, without the stimulus of competition or the purifying influence of publicity or the skilled oversight of the State. There can be no possible case for the State granting legal rights to an industry to buttress monopoly, eliminate competition, and act as judge in its own cause.

As Lord Acton said, in a much-quoted phrase, "All power corrupts. Absolute power corrupts absolutely." This is as true in economics as in politics.

This is not to say that the leaders in an industry are likely to desire the protection of inefficiency for themselves ; though even they may be understandably influenced by consideration for their weaker brethren. It is not to suggest that the others are any bit worse than the rest of us. Just as any of us who become Civil Servants are likely to adjust ourselves to that background, so any of us, given the right to decide whether things are to be made easier or more difficult for ourselves, will tend to prefer the former alternative! It is just human

nature. we must all be safeguarded against our human failings, in the interests of the community as a whole.

An Association becomes a bad thing when, in however plausible a form and in whatever measure and with whatever motives, it becomes in fact a conspiracy to secure undue benefits for those concerned at the expense of the community. This applies just as much to a Trade Union as to an employers' Trade Association. Indeed, the risk to the community is the most dangerous when labour and capital drift (because, so far as the majority are concerned, it usually is "drift") into joint association for ends contrary to the interests of the community.

I am prepared to believe, as I have said, that all such steps are taken in the first instance, so far as the great majority are concerned, in the honest belief that they are truly serving the interests of the community. The practical question is at what point in association they may in fact become anti-social; and who shall determine this. To permit them to determine such an issue for themselves can never be justified. This means that they should not be given legal powers except under stringent control, with all the necessary publicity. They must never be above the State or outside its control in theory or in fact. Moreover, it is not sufficient simply to withhold legal powers. Certain associations may be so powerful in themselves or in their financial and political associations (whether to the Left or to the Right) as in fact to leave them in a position to dominate their minorities and to exploit their fellows. Steps must be taken to prevent this. This is a point I will develop further in a later part of this book.

At this stage of our consideration I would only submit that we cannot contemplate industrial feudalism within the nation however willing those within the particular feudal system may be. That way lies the corporate State. In a democracy every citizen must be equal before the Law: and must be subject to the Law. None should be permitted to contract out.

This subject, of course, is large and complex enough for a book in itself. As I have said, there is a wide variety in the proposals submitted by different industries, varying from completely voluntary associations for completely social objects to the demand for compulsory association with delegated legal powers. To attempt to examine all these would be beyond my sphere or capacity.

#### THE 120 INDUSTRIALISTS

The whole problem, however, was brought into sharp focus by the publication at the end of 1942 (when this book was already partly

written) of a statement entitled "A National Policy for Industry" bearing as its signatories a list of names of outstanding distinction in industry and including men whose motives and whose idealism and whose sense of obligation to the community are beyond question. This document (which I will refer to as the "Industry Report") urges the relations between firms within the industry, between different industries and between industry as a whole and Government should be fully and more comprehensively organized in some form of permanent association. Everything, however, of course, depends upon the precise functions and the precise authorities of the different bodies which are contemplated. Everything depends upon the more detailed purpose in mind and the authority behind them.

The Industry Report suggests that industry should be classified into sections and that each section, through its sectional association, should be able to organize itself with the following main purposes in view:

(a) To promote the production of a maximum output at the lowest possible price consistent with the adequate remuneration of labour and capital.

(b) To establish a greater measure of collaboration, both within the trade and with other sections of Industry, in the interests of efficiency and therefore of service to the consumer.

(c) To encourage such forms of industrial competition as are conducive to the public interest; conversely to discourage wasteful and destructive competition.

(d) To establish contact with any bodies representative of the consuming public or sections of it and to take account of any representations which may be made in regard to the quality or price of manufactured products or their methods of distribution.

(e) To adopt standards of wages and conditions of service which pay full regard, so far as lies within their power, to Industry's aims as indicated in Section I."

In general, these aims are unexceptionable; but it all depends how they are carried out in practice. It might be suggested that the interest of many would be concentrated upon the second part of paragraph (c) namely, upon the discouragement of wasteful and destructive competition. Nobody wants wasteful and destructive competition; but who is to decide whether and when competition is wasteful and destructive? Those suffering from the effects of competition can easily and in good faith regard it as wasteful and destructive, but competition by its very nature (and indeed as part of its purpose) involves the elimination of inefficiency. A successful surgical operation may in-

volve pain. It may even involve the loss of a limb. That does not mean, however, that it is not justified or that the patient would not have been very much worse without it. Who is to determine when competition is a good thing and when it is a bad thing; and when it is thought to be a bad thing, how it is to be dealt with and under what supervision?

The Report goes on in carefully chosen terms to discuss the question of the exercise of compulsory powers upon a minority. It states specifically that it would be impossible, if a considerable number of firms did not join the sectional associations or were not willing to accept the views of the majority, to be sure of avoiding the waste involved in uneconomic competition and to be sure of securing a general application of the code recommended. It relates this last point in particular to labour and the Social Services, but it is not in this direction that the real difficulty would arise. That aspect could be taken care of by Trade Union and State action.

The Report clearly recognizes the crucial importance of this issue and proposes that the whole question should be remitted for close study. It recognizes also that if compulsory powers were found necessary they would need to be subject to proper safeguards. In the first place the granting of such powers and their continuance would be a matter for Parliament. They did not contemplate any final devolution upon the representative bodies of industry of legislative powers which probably belong only to Parliament. Inasmuch as rule-making authority may be delegated, it would be right that such rules would not become operative without Parliamentary approval. It is a cardinal point in their proposals that ample provision should be made for the protection of the public as consumer. They also consider that in such circumstances it would be necessary to provide machinery of appeal. Such appeals might be to an industrial tribunal set up for the purpose and appointed by the Government.

It is clear, therefore, that the signatories are fully alive to the objections which can be made against the greater claims for delegation of "self-government to industry," and do recognize that in a democracy final control must rest in the hands of Parliament and its appointed Ministers. Nevertheless, with the best intentions in the world and with the best paper safeguards, such a suggested Council of Industry, especially if it were able to act in conjunction with the Trades Union Congress, might easily constitute a body strong enough in practice in its own sphere to challenge the authority of Parliament itself. Indeed, the very fact that the decision of the Tribunal (though appointed by Government) would be final would take this final authority out of the



hands of the responsible Minister and therefore out of the control of Parliament itself. As Mr. Lyttelton, speaking at the time as Minister of Production on a somewhat similar issue, said, this would be wrong. The only democratic safeguard is that control over the actions of individuals should finally rest with a Minister responsible to Parliament.

I would not like to seem in any way unsympathetic to the objects in view and in particular to the development of an efficient private enterprise with a full sense of its duty to employees, to consumers and to the community as a whole. I would not like to seem in any way critical of the motives behind this report. I do feel, however, that it leaves unsolved the central problem we are discussing, and I will attempt later to suggest another line of approach which would seem worthy of consideration in the light of experience; that is to say, a method of achieving the ends in view, so far as they are justifiable, without violating this principle of democratic control.

Meantime, in looking at the proposals of the different trade associations, there are certain simple tests which may be applied. Is the primary aim the development of the industry, or its protection? Does the industry ask that its own association should be granted power at its own discretion to impose restrictions? In general, a quick test might be to ask whether there is any proposal in any particular case to ask for the delegation of legal powers,

- (1) to exclude new entrants from the industry;
  - (2) to compel membership of an association;
  - (3) to fix minimum prices or maximum values; or
  - (4) to fix production quotas binding on the industry,
- except after full consideration by Parliament (or by a decision of a Minister advised by an impartial organ of Government constituted for the purpose and reporting after full investigation and with due publicity) and under continued public supervision.

No industry can rightly claim to have, at one and the same time, the privileges of monopoly and the profits attributable to enterprise and the bearing of risk. No industry can rightly ask to have freedom from State control and at the same time the right to restrict the freedom of those within the industry.

## WAR EXPERIENCE

I HOPE that the argument running through the earlier chapters is beginning to show itself. It is, briefly, that while all industrial activity of whatever kind must be judged by the standard of service to the best interests of the community, we should adopt the particular method of State ownership and operation only in those cases (probably limited in number) where the particular circumstances seem to point to this as the best solution. For the rest, we should look to the State first and primarily to provide a suitable economic setting and to determine objectives and lay down principles and exercise oversight; and, secondly, where the State must intervene in the actual operation of industry we should seek to do this in a way which leaves the greatest practicable degree of initiative and responsibility to those in the particular industry concerned. If the second objective is to be secured, clearly our organization and methods must permit of flexibility of application.

It is proposed to deal with this in general terms in later chapters. Meantime I feel that much experience has been gained during the war of what I may call "supervised self-government," of which too little is yet known, and which may well throw valuable light on this problem. I feel that some detailed consideration of a particular instance may be of more value in this case than a general survey, and I propose, therefore, in this chapter to say something of the relations between the State and the cocoa, chocolate and confectionery industry during the war.

At first sight this may seem an unusual instance to take. My reasons for so doing are:

(1) It is (perhaps surprisingly) one of the quite large British industries. In peacetime nearly 100,000 are engaged in manufacture, employed by many hundreds of manufacturers ranging in size from some of the largest firms in the country to some of the smallest, and producing a very wide and varied type of product. Handling this production are over 5,000 confectionery wholesale and well over 250,000 retail outlets.

(2) It offers, because of these factors, a range of supply and pro-

duction problems fairly representative of, at any rate, secondary industries as a whole.

(3) Unlike many other industries its distribution side (so far as chocolate and confectionery are concerned) has been largely special to the industry, and worked in close relationship with manufacturers, and it offers an instance, therefore, of a largely self-contained unit from producer to consumer.

(4) It is certainly one of the industries in which full and free competition in the economist's sense continued to exist right up to the outbreak of war.

(5) It has enjoyed the advantage of able and enlightened leadership, providing a sound basis for experiment in co-operation with the State.

(6) It is the industry in which (so far as I am aware) the first so-called Wartime Trade Associations (as distinct from Wartime Companies) were established, and these have been the model, or prototype, for other industries.

(7) I happen to have the advantage of knowing the facts intimately, having been the Divisional Director of the Ministry of Food responsible for relations with this industry during nearly five years of war.

I should, however, make two points clear. First, I am naturally limited in my statement of facts to such information as is generally available to the public, or at any rate to the industry. Secondly, I do not suggest for a moment that the wartime arrangements to be described are appropriate to normal peacetime conditions for this industry (where free competition is likely to continue) or necessarily, without modification, for any other industry. What I do feel is that they throw an interesting light on the possible relations between the State and certain industries where some varying degree of flexible control may be called for in peacetime.

## THE PROBLEM

Before the outbreak of war there had been considerable consultation between the Food (Defence Plans) Department and a Defence Committee of the Manufacturing Confectioners' Alliance, the old established voluntary peacetime trade association. Provisional plans had been made to deal with certain matters in the event of war. In particular a scheme of pooled transport had been devised which was put into operation after the outbreak of war. It was recognized also that there would necessarily be a shortage of ingredients, and the

M.C.A. at the outbreak of war established its own Allocations Department to ration the reduced supplies to all manufacturers on the basis of usage in an agreed basic pre-war period.

With the fall of France in 1940, however, it was realized that more far-reaching action would be called for. There were two broad alternatives. The first was for the Ministry of Food, in effect, to "take over" this industry as it had done others. In such case it would directly specify what was to be produced in quantity and in kind (involving a complete measure, or large degree, of standardization); where and by whom it should be produced; and through what channels and at what prices the products should be sold. The industry would be directly controlled by a Division of the Ministry. It would amount, in effect, to temporary nationalization. The second was for the Ministry to allocate such supplies of ingredients and other materials as it thought fit, and to place orders, or to arrange for the acceptance of orders, for certain priority goods; but for the rest to confine itself as far as circumstances permitted to setting objectives to be achieved, laying down principles to be followed and leaving it to the industry itself, under Ministry supervision, to manage its own affairs. The question was important, not merely because the industry was large and because its production (and particularly certain large priority production) was important; but also because it was the first of the composite food manufacturing industries (as distinct from food processing industries like sugar refining, flour milling and oils and fats) to be approached in this way. The choice was likely to form a precedent for other food industries. The decision was emphatically in favour of the second alternative; that is to say,

(1) The Ministry would determine major questions of policy (such as the broad types of goods to be made and the principles of price control) in the light of national interests in general and of consumer needs in particular;

(2) it would discuss with the industry the best means of achieving the ends in view with a minimum of avoidable hardship and with a maximum opportunity for the exercise of initiative;

(3) it would leave such matters to be carried out so far as possible by individual businesses with a minimum of regimentation;

(4) where administrative control was called for, this would be delegated as far as possible to a body representative of the industry, working as agent for the Ministry and under its supervision.

In brief, the method to be adopted was that of "supervised self-government."

## WARTIME ASSOCIATIONS

For this purpose it was necessary to have a body or bodies to perform two quite separate functions: first to represent the views of the industry and secondly to perform such functions as might be left to the industry as a collective unit.

As regards the first, there was in existence the Manufacturing Confectioners' Alliance which was, as I have said, an old-established voluntary trade association. Whilst, however, its membership represented a very large proportion of the total production of the industry the numbers of its members were only a relatively small proportion there being in particular many small manufacturers outside its membership. It was clearly necessary to have for this purpose a body fully representative of the industry as a whole and with special regard to the position of small manufacturers who might feel that otherwise their interests might receive inadequate consideration. To secure such a representative body compulsion was necessary and the Ministry could scarcely compel membership of a voluntary unofficial body. It was therefore decided to create a representative official trade association of which full membership (for all except very small manufacturers) could be secured by the ability to withhold a manufacturer's licence. In fact, two separate associations were formed, one covering cocoa and chocolate, and the other sugar confectionery. Their constitutions differed slightly but were based on the same principles, and the functions to be performed were the same.

In both cases special care was taken to see that they were fully representative, with due weight attached both to the numbers of the different firms and to the varying importance of their size and productive capacity. In the case of the Cocoa and Chocolate (Wartime) Association, this was secured through a governing body representing largely existing recognized "groups" of different size and character within the industry, the numbers allotted to each group being related broadly to volume of production represented. In the case of the Sugar Confectionery (Wartime) Association, the governing body was made up of groups representing the six different sub-divisions of the industry (classified according to goods manufactured), together with a separate group representing small manufacturers as such. In this instance, in the election of representatives of groups, the voting power of each member of the group was related to his proportion of the turnover of the products in that group. In each case separate representation was given to the Co-operative Wholesale Society. In each case (apart

from the election of the different groups on the Confectionery governing body) each member had one vote.

For the purpose of acting as representative bodies all that was required was that there should be due liaison with the Ministry of Food by appropriate attendance of Ministry officials at suitable meetings. For the purpose, however, of performing certain important administrative functions delegated to them by the Ministry, a closer association was called for. It was arranged, therefore, that there should be two Ministry representatives on each governing body, nominated by the Minister, these representatives to have in the last resort an overriding vote. It is interesting to note that in fact such vote has never yet had to be exercised. That the industry itself, however, regarded the vote as important was shown at a later date when there was a proposal to remove this overriding vote, but at the unanimous request of the Associations it was retained. Membership of these Associations is open to any manufacturer of any size.

We had, therefore, two official Wartime Associations, representative of the whole industry, to act during the war emergency, both to express the views of the industry and to perform such functions as might be found desirable. It may be of interest to state the objects of the Associations as set out in their constitutions. The following are the objects of the Cocoa and Chocolate Association, the objects of the Sugar Confectionery Association differing only in detail:

(1) To act during the present war as the representative organization of the Cocoa and Chocolate Industry, by which term is meant the manufacture of cocoa, chocolate, chocolate confectionery, cocoa butter and couverture.

(2) To represent the Cocoa and Chocolate Industry in all negotiations concerning the supply and allocation of raw materials to and their utilization by the industry, and distribution of its products, supply of labour, control of prices and any other matters affecting the industry.

(3) To determine, subject to any Order of the Minister of Food for the time being in force, the prices at which, and the conditions under which the goods referred to in Rule 3(1)\* hereof produced by the members of the Association may be sold by them.

(4) To perform such other functions as may be agreed between it and the Minister of Food, including the following:

(a) To facilitate the equitable distribution of the products of the industry amongst wholesalers and retailers.

\* Rule 3 (1) is a later rule under the Constitution which deals with conditions of membership.

(b) To administer or co-operate in administering schemes for the control of prices designed to ensure reasonable prices to the consumer.

(c) To administer or co-operate in formulating and administering schemes for the control of production.

(d) To act as a clearing house for "Priority Orders" and other orders given by any Government Department.

(e) To develop collective action in the industry designed to secure economies by the simplification of price lists, standardization of packs, pooling of transport facilities, or by any other similar method.

(f) To encourage and co-ordinate mutual arrangements between manufacturers, to maintain production in spite of war damage and/or requisitioning of factories.

(g) To formulate and administer schemes of mutual insurance or equalization of burdens arising out of war conditions or from Government action.

(h) To join with the Sugar Confectionery (Wartime) Association in performing any of the above functions in relation to matters which are common to both Associations.

In each case there was a governing body with an Executive Committee and with separate expert Price Control and Production Committees. There was also a Joint Executive, together with expert Joint Supply, Distribution and Transport Committees. The staffs of the Associations were largely drawn from the industry and they became in effect technical Civil Servants operating under the guidance of the leaders of the industry, working within the limits and on principles laid down by the Ministry but left in practice with a maximum freedom to select means to ends.

#### PRICE CONTROL

Whilst the constitutions gave to the Associations in general the power to determine prices, in fact in practice such powers have been limited to assisting in securing the enforcement of maximum prices agreed with the Ministry. There have been no Association arrangements for maintenance of minimum prices.

It would seem that the part played by the Associations can best be illustrated by taking particular activities, and of these price control perhaps illustrates most clearly the difference in practice between orthodox Government Department control by Order and the more

flexible methods possible in conjunction with appropriate bodies of this character.

Government price control is never an easy task, but it is relatively easy, or certainly much easier, if the product is standardized or if the product is imported by a Government Department or at any stage completely owned by the State; and particularly if both of these conditions are present. The State is then able, as owner, to fix its own selling price and to regulate the prices at different stages of distribution to the consumer. In this industry, however (and in this it is representative of many and probably the great majority of industries), price control presents much greater difficulties. In the Four Years' War the position was dealt with by fixing a single maximum retail price for sugar confectionery of 2s. 8d. per lb. and for chocolate of 4s. per lb. The result was that substantially all goods tended to be sold at these maximum prices irrespective of quality and of the true consumer value. This time it was decided to improve on this arrangement, but there were great practical difficulties in any such standardization of products as would have been called for by orthodox methods of price control. Moreover, this very standardization would have deprived the consumer of that very factor of variety which (in this as in many other cases) is regarded as an essential part of the attraction of the product to the consumer. It was desired, therefore, to avoid standardization, but also at the same time it was felt quite inadequate to fix single maximum prices as was done in the last war.

The solution was found by the Ministry in co-operation with the industry. The method adopted was this. The Ministry, by Order, fixed maximum prices for a number of "product groups" appropriately designated. It was made an offence for any goods to be sold at more than a certain low maximum price unless such goods had been "classified" as appropriate to a product group carrying a higher price. The work of classification was left to the Associations as agents for the Ministry. The work was done by expert Price Control Committees (mainly of professional accountants) on principles laid down by the Ministry and under the general supervision of the Ministry. The Price Control Committees were advised by expert Quality Panels drawn from the industry, who had before them the products of each manufacturer and who were able to assess the appropriate price for one product in relation to another. By this approach, the Ministry secured the determination of the standard increase in price permitted for different product groups in relation to pre-war, whilst the industry was, of course, anxious to secure equity of treatment in the actual classification of the goods of its different members. In consequence



the standards indicated by the Ministry were translated into a classification of products which, on the one hand, safeguarded the consumer and, on the other hand, secured equity of treatment to different manufacturers producing goods of different type and quality.

The price Orders made it a condition of any sale above the basic price that goods, when they reached the consumer, should be appropriately ticketed or marked so as to indicate the product group into which they fell and the consumer price to be charged for them. In this way maximum prices to the consumer were fixed. In turn (following the usual practice of the industry) appropriate trade prices were agreed by negotiations between manufacturers, wholesalers and retailers on principles laid down and on a basis, in turn, approved by the Ministry. The whole of these arrangements were set out in certain price control codes which were made available to all concerned in the industry as well as to the appropriate officers of the Ministry. The Associations appointed their own expert travelling inspectors who went round continuously making inspections, taking samples, and advising manufacturers and distributors as to the proper observance of the Orders, and reporting weekly to the secretariats of the Associations.

The result perhaps was not a completely tight one. In some cases the maximum prices fixed, no doubt, imposed some degree of hardship on certain manufacturers, and in other cases they allowed of profits higher than might have been usual. This is unavoidable in a large industry containing many hundreds of manufacturers of widely varying efficiency. The broad result, however, and particularly in its effects on the consumer, was satisfactory. There was an almost total cessation of consumer complaint. In effect, there was secured to the consumer wide variety of choice of goods at prices which he could rely upon as being appropriate to any particular product. As a matter of fact, 95 per cent of the total production of chocolate and confectionery together was being sold in the sixth year of the war at consumer prices not exceeding 2s. 8d. per lb. and a large proportion of this at prices less than this. This is to be compared with what in effect were the two ruling prices in the previous war of 2s. 8d. per lb. for confectionery and 4s. per lb. for chocolate, and this in spite of the substantial general rise in costs and in price levels generally following that war. A striking instance is that of standard plain chocolate, sold in the sixth year of war at a figure at or below the corresponding price ruling in August, 1914 (that is, before the previous war) and for a much improved quality of product than that available in 1914. In conjunction with certain production controls to be mentioned later, the consumer was

thus offered a broad range of utility values without the degree of standardization normally attached to utility goods.

In the case of cocoa, the number of firms concerned was limited and it was possible to deal with the matter without a price Order, the Cocoa and Chocolate (Wartime) Association undertaking as an Association to control prices on a basis agreed with the Ministry. In this case, major brands of cocoa powder were selling in the sixth year of war at prices below those ruling in August, 1939.

### CONSUMER RATIONING

Another good example of the advantage of this relationship between a Government Department and an industry is to be found in the scheme of consumer rationing which was adopted.

The Ministry of Food have sought throughout to apply the principle of "fair shares." After a certain point in the war there was manifest unfairness in the distribution of chocolate and confectionery. Those with leisure or influence were often in a position to get an undue share. A Ministry Committee was constituted, including Civil Servants, but with a majority of experts drawn from the industry. This committee produced a scheme which ultimately took the form of the well-known Personal Points Rationing Scheme.

As I say, this is a good instance of the value of leaving decisions of practice (as distinct from policy) as far as possible to the judgment of those in the industry who know the facts. The decision to ration goods was quite properly a decision of Government and a decision which indeed was not at the time acceptable to many in the industry. The method to be adopted was a matter on which the Ministry was prepared wisely to be guided in detail by the industry. This seems, therefore, a good particular illustration of that differentiation of function between the State and industry for which I am arguing.

If this matter had been left to purely Government decision, the orthodox approach might have been to attempt a straight rationing scheme with registration with retailers, which in turn would almost necessarily have involved an undesirable degree of standardization. Alternatively, the proposal might have been to put sweets on the general points scheme which, in turn, would have meant in practice that purchases would have tended to be made for the family by the housewife with the ordinary household goods. This would not only have meant a large change over of trade from retail confectioners to grocers with a great measure of hardship to small businesses, but it would also have meant depriving the consumer, and in particular

children, of the pleasure of individual shopping. This freedom of choice is indeed almost an essential part of the pleasure of such purchases. Naturally these views were fully stated by industry representatives and in consequence a scheme was evolved which secured the Government's object of fair and equal shares and yet left to the consumer complete freedom of choice of goods within the fairly wide range still permitted by war conditions.

Even, however, this co-operation in framing the scheme would not alone have been sufficient to secure its success. It was not easy to ensure that with very slender stocks, serious and varying production difficulties and changes in the location of population, supplies could be relied upon to be available in every town and hamlet to meet this consumer choice. This was ensured only by full, intimate and cordial co-operation between the Government and the Wartime Associations. In this partnership the Government took responsibility for the legal framework of the scheme, while the industry accepted responsibility for distribution of supplies to meet the coupons. For this purpose the country was divided into four large regions, and these, in turn, into areas, with appropriate regional and area officers drawn from the industry. Emergency stocks were created and distributed at strategic points under the control of these officers.

As Lord Llewellyn, the then Minister of Food, said at the end of the first two years of the scheme, the result was very successful. To quote his words:

"The success of the scheme is best shown by the fact that 98 per cent of the Personal Points coupons issued were being redeemed. It has been no easy task to ensure continuous supplies. The 'butter' so to speak, has had to be spread skilfully. Some 2,000 manufacturers supply something like a quarter of a million shops, canteens, and other retail outlets from the big city shops to the remote village general store. There are many difficulties to be faced, labour, transport, black-out and, at times, the blitz.

"Perhaps the consumer may be interested in a peep behind the scenes of this industry. There has, all along, been a close and friendly relationship between the Government and the industry. On the one hand, the Ministry operates the coupon side and makes available the ingredients and assists to obtain—and retain—labour. On the other hand, the industry, through its two Wartime Associations, one for chocolate and the other for sugar confectionery, sees that supplies are available to honour the retailers' coupons and to meet any changes in population. In each region the industry has a regional officer, with area agents, in direct daily touch with manu-

facturing centres, watching, and where necessary, guiding the flow of supplies. I think this is an example of supervised self-government at its best. The Ministry lays down the principles to be followed, the industry achieves the desired ends."

In brief, the Government determines the principle of rationing and the size of the ration. The industry accepts responsibility for securing the desired end, with all the freedom and flexibility which this makes possible.

## PRODUCTION

Another interesting example of the same kind of collaboration is found in the field of production. If supplies of ingredients are restricted, the natural tendency is to use those ingredients in the production of goods in the higher priced range. Even with proper price control of different classes of goods, the result of this would be a large increase in the average consumer price. It was the responsibility of the Ministry to secure that as far as possible under conditions of shortage there should continue to be adequate supplies of the cheaper classes of goods. Again, the more obvious way of securing this end would be to require certain defined types of goods to be produced in certain quantities. This, however, would once more result in standardization. In consultation with the industry the desired object was secured in a different way. Each manufacturer's current production was governed by reference to the proportions of goods of different types and prices produced by him in the basic period. The manufacturer, for example, who in the basic period was producing 90 per cent of his total production in goods at not exceeding a certain cheap price was required to continue to produce at least 90 per cent of his production in that category; in effect at that price as increased to meet war conditions.

The same division into categories also assisted the Government to secure production of particular classes of goods required under particular conditions, like convenient packages for use in shelters during blitz. Taken in conjunction with price control and the restrictions on labour mentioned below, the result is shown in the fact I have already stated that in the sixth year of the war more than 95 per cent of the total production was being sold to the consumer at prices at or below 2s. 8d. per lb. Moreover, though the scheme was introduced at the instance of the Ministry for the benefit of consumers, it came to be greatly appreciated also by the industry as a broad measure of equity amongst different classes of manufacturers.

By this measure of partnership there was secured, therefore, all the

virtues to the consumer which might be offered by a fixed range of utility goods but without the rigid standardization and degree of control otherwise required. Utility prices were secured without the loss of variety of choice.

### CONCENTRATION

A similar instance is found under the heading of concentration. Faced with the problem of freeing labour and space for more essential purposes, the normal method of approach, particularly of the Board of Trade, had been to divide an industry into a certain number of nucleus firms and of other firms, and to concentrate the production of the latter into the factories of the nucleus firms. In this way half or three-quarters of the factories in an industry might be closed down altogether for an indefinite period, with all the necessary hardships involved in this and all the problems to be faced when the time for de-concentration came.

In 1942, production in this industry had been very substantially reduced by reason of restriction of materials, and labour employed had been reduced in even greater proportion by simplification of product and in other ways. It became necessary, however, for a further large contribution to be made, both of labour and of space. Once more the problem was faced jointly with the industry through the medium of the Wartime Associations. The industry was anxious to avoid concentration in the sense generally understood. On the other hand, the Government had to insist that a certain amount of additional labour and space must be made available without further reduction in production. In collaboration with the industry an agreed method was evolved which met both points of view. The industry undertook to provide the total quantum of labour and to do this by a progressive restriction on the amount of labour to be employed per ton of the goods produced. As regards space, if a specific factory or part of a factory was required in a particular place, it was made available. For the rest, the industry undertook to make available a certain aggregate of space throughout the country. The result was that, with one or two minor exceptions, all the many firms in the industry were allowed to retain at any rate some nucleus of production while at the same time the Government secured the labour and space required. In certain special areas, the labour requirements were such that a more than proportionate demand for labour had to be made on certain firms, resulting in a considerable degree of hardship. In each case, however, there was available a scheme, worked out by the

Associations on an agreed basis with the Ministry, for the production of goods on behalf of such firms in other areas, the effect of which was to mitigate any financial hardship. This last, again, is an example of something which each industry can do for itself which it would be difficult for the State to do and which yet could not be done, or be done with the same degree of success, without an efficient trade association with compulsory membership. It, incidentally, has the advantage of relieving the State of all responsibility for the very difficult problem of sharing out the burden of hardship within the industry.

## ZONING

A last example of the advantage of the partnership approach can be given in the case of zoning.

As the war proceeded, it became essential to effect further large economies in distribution, particularly in the avoidance of railway cross hauls. A large proportion of the production of this industry is by firms with national distribution, not only to wholesalers but direct to retailers. An Order merely forbidding the despatch of goods for more than a certain distance, or beyond a certain area, might well have resulted in complete disruption of distribution, and would certainly have upset the very delicate balance required (with slender supplies) to meet the consumer ration. Again, the problem was put to the Wartime Associations and they undertook to formulate and carry through without legal Order an arrangement under which the whole country was divided into four large zones. In order to meet not merely consumer need but to avoid serious hardship to distributors of different classes and in different areas, the industry undertook a very far-reaching scheme for the exchange of accounts involving a large statistical and administrative operation which was carried through with general satisfaction.

This instance will illustrate the results which can be achieved when there is the right relationship between the State and industry, and appropriate machinery. The Government decides on the degree of control necessary. The form of control is discussed with the industry through well-established machinery of consultation. The task in each case is to secure the end in view with a maximum of efficiency and flexibility and a minimum of hardship. The result is to secure controls which are tailor-made to meet the needs. The operation of the controls in general remains with the industry through its own technical civil service. The policy all the time is determined by the Government. A further advantage of this method of approach is that the necessity

## THE FACTS AND THE ALTERNATIVES

for controls applied in this way is clearly recognized by those concerned and there is no question of any claim for their sudden removal. It is fully understood by all that the controls have resulted inevitably from certain conditions of shortage and that they will be removed just in proportion as conditions which called for them are seen to pass away. In this way unity of view is secured by Government and Industry. Both are guided by an objective consideration of the facts.

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It is not suggested that precisely the same approach would be appropriate to all industries even in wartime. Indeed the essence of this approach is its flexibility. It is not suggested that there is any necessity under normal conditions to have any such control at all where and so long as supplies are adequate and competition secures the ends in view. It is not suggested that precisely the same approach, or the same degree of control, will be necessary in peacetime, even in cases where some degree of State control or supervision is called for. What I do suggest, however, is that this experience and other similar experiences through the war do suggest a certain general method of approach. It does point to a possible relationship of the State to Industry in peace conditions in a wide range of industries where there is no case for State ownership or operation but where some specific degree of supervision may be called for in the interests of consumer and community. It is proposed to draw further on this experience in the concluding chapters.

## Part II. The Conclusions

### *Chapter VIII*

#### GUIDING PRINCIPLES

At the outset an endeavour was made to outline the purpose of our enquiry. This was summarized as that of consideration of the sphere of the State in relation to industry, with particular reference to the organization of the relationship of the State to industries still in private ownership.

Meantime we have sought to make a broad, though, admittedly, very partial, survey of the various possible alternative relationships, in the light of experience gained up to the present time. It remains now to endeavour to formulate the conclusions which seem to result from this examination.

It has to be recognized that it is, of course, always much easier to state negative than positive conclusions: to be destructive rather than constructive. This is particularly true of the individual working alone. Constructive proposals are best evolved by the interplay of different views, in the light of practical working. That is indeed the only safe way in which detailed proposals can properly be formulated. Any other approach must be tentative. I will endeavour, however, to make my approach as constructive as possible; meantime asking readers to recognize that what I am attempting to table is not a blue-print but a rough sketch.

First, however, our discussions have led us so far afield that (even at the risk of some repetition) it would seem desirable to restate certain fundamental views upon which agreement should be possible:

(1) The guiding principle in every case should be how best to serve the highest interests of the community in its widest sense. No lower aim will suffice. We must, it is true, consider the consumer; but we must not sacrifice the producer to the consumer. We must aim to give good conditions to the producer; but not at the expense of the consumer, by permitting inefficiency or undue reward. We must do justice to rightful ownership; but not at the cost of perpetuating inefficiency. Vested interests, as such, must not be allowed to stand in our way. Capital, management, and labour all contribute to production: but their reward is amongst themselves and in



total should not be in excess of their real contribution. Our own standards should not be adjusted to the changing views of different political parties. Our aims should not change with change of Government. We should seek to retain the true scientific approach. We should not be too much influenced by short period considerations; in considering the highest interests of the community we need often to take a very long point of view. We should not be deterred simply because a particular course will cause some immediate hardship; the surgeon must often cause pain to secure well-being.

(2) Applying this reasoning, we must seek that form of organization and activity which appears best calculated in fact to secure the ends in view in the particular circumstances; without being unduly influenced by preconceived views. We may differ as to whether we want public enterprise or private enterprise in a particular case: we may, however, agree that, in every case, we all want the practical maximum of enterprise, initiative, imagination, flexibility, and courage. These are the qualities which determine true progress, and therefore, in turn, the real standard of life of the people. Moreover, by their very nature it is usually only possible to measure them by results. Innovation is necessarily suspect until its success is demonstrated in practice. Any organization is bad to the extent that it hampers enterprise, reasonable emulation, the power of decision (often of quick and individual decision), and the taking of reasonable risks or, indeed, sometimes, the taking of unreasonable risks! We should therefore only propose an organization in any measure inimical to enterprise, as so understood, where and to the extent that other over-riding considerations appear to compel this. Even in such cases, we should seek to limit this restriction on enterprise and initiative to the necessary minimum.

(3) In this connection we should avoid as far as is humanly possible arrangements whereby "permission" is required from some other authority before action can be taken. Nothing is more devastating to enterprise, initiative and character. This is true whether the permission is to make a purchase, start a factory, make an export or take a job. All classes of the community must recognize this after the last six years of form-filling and of kow-towing to minor officials. We have recognized that the State must play a large and increasing part in determining minimum conditions of employment, of production, of quality, of price, and so on. It is desirable, however, that as far as ever possible it should do so by framing its directives or fixing its standards clearly and definitely;

allowing freedom so long as those directives or standards are observed. If a certain road to Brighton must be closed on Sunday, let it be closed, and leave the wayfarers free to exercise their brains on how best to get to Brighton without this road. Don't make them apply for permission to go by a proposed route. Say that no more factories are to be built in a given area ; but don't require permission from a Government Department to erect a factory elsewhere. Say that a certain export market is banned or subject to an export duty, or open only on certain defined conditions, but don't ask exporters to apply for licences for exports generally. This point may seem small. In fact it is vital and central. There are large fields in which the State can and should say what should not be done. Only in the last resort should it say what must be done in any field where initiative and enterprise are desirable.

(4) While the State can clearly and properly reserve the right to undertake activities under public ownership wherever the best interests of the community call for this, yet (at any rate at our present stage of development and at the present time) it should only do so where private enterprise is manifestly inappropriate, or has demonstrably failed in practice. In the words of the declaration of Labour Party Policy in the recent election :

"Each industry must have applied to it the test of national service. If it serves the nation, well and good ; if it is inefficient and falls down on its job, the nation must see that things are put right."

Taking the generality of industries, the interests of the community (including in this those of the producer) are probably best likely to be served in present circumstances by true private enterprise working under conditions acceptable to the State. But it must be genuine enterprise, free from all restrictions, arrangements and understandings other than those which can be demonstrated to be consistent with the interests of the State. What has been called "the cancer of restrictionism" must not be confused with true private enterprise. The principle at least of public supervision of monopolies and cartels is accepted by all parties. The essence of enterprise, and its final justification in the interests of progress, is a willingness to take risks. Government should encourage this. Again quoting from the same Labour Party source :

"The economic purpose of Government must be to spur industry forward and not to choke it with red tape."

## THE CONCLUSIONS

We have, I believe, a very large measure of agreement in principle in our approach to this problem of the best relationship of the State to industry. Let us now, therefore, seek to apply these principles to publicly-owned and privately-owned industry respectively.

## PUBLIC ENTERPRISE

It may be thought that, while there may be large differences of opinion as to whether a particular industry should be nationalized or not, once an affirmative decision is made, no further question of the State's "relationship" to it (in the sense we are discussing) can arise. The State, having purchased the industry, can do with it as it thinks fit, as owners. The industry can say, "*L'état ; c'est moi*." This is not so. The industry has still to be fitted into the general economic background. Its efficiency must still be ensured. The State is now directly responsible for its efficiency. Ownership is important ; but Enterprise is far more important. We are just as concerned to see enterprise under public as under private ownership. From that angle we must still consider the relationship of the State as "government" to the now nationally owned industry. It is vital to keep clear the distinction between ownership and operation. I hope this book will not be taken as just a case for private ownership. It is certainly not so. It seeks to explore conditions which will make for the greatest measure of enterprise, whether under public or private ownership.

For my part I have no ideological objections to public ownership wherever there is a clear case for this in the best interests of the community. There are obvious cases in which public ownership appears to be the best solution ; for example, because of the close relationship of a particular activity to the functions of government, or because of its inevitable monopoly character. There are others where an activity has, in fact, become a monopoly too powerful to be left in private hands, or where private enterprise has demonstrably failed. There may be others arising out of considerations, for example, of national security. To discuss these, however, would be to depart from the main purpose of this enquiry.

In any such case, however, it still remains of prime importance to see that under public ownership a maximum of enterprise and efficiency is in fact secured. Ownership, whether public or private is not an end in itself but a means to an end. In practice the shareholders in a large industrial enterprise have little direct contact with its operation and management. In general, their rights, in effect, are confined to the ability to remove directors who have proved them

selves inefficient or unsuitable. One of the best tributes to the successful conduct of a large company is a small attendance of shareholders at its Annual Meeting! Indeed, even in a modern political democracy the main ultimate right of electors is to remove a Government which has failed to satisfy them.

When, therefore, we have decided that we will nationalize an industry (for example, the proposed nationalization of coal-mining), we are still left with the problem of how best to do so; that is to say, what is the best form of organization likely to give us the result we want.

This is a subject on which it would be very unwise to dogmatize. It is a subject on which it is much easier to say what should not be done than to say positively what should be done. It is submitted very emphatically, however, that in normal times no industry (or industrial or commercial service) should ever be run as, or as part of, a Government Department. The reasons for that view have been fully stated in Chapter III. The Civil Service, however high the qualities and capacities of individual servants (and they are very high), is not fitted to run industry. The Civil Servant is, in effect, administering the law. The management of industry is a totally different activity. The Civil Servant must inevitably be guided largely by precedent. Successful conduct of industry calls for constant innovation and, on occasion, improvisation. The Civil Servant must play for safety. The successful conduct of industry necessarily involves the taking of risks. The Civil Servant must always endeavour to be reasonably certain of being right in his proposals. The successful industrial organizer must be perfectly willing to make mistakes; to be demonstrably wrong. The Civil Servant must work under the constant scrutiny of Parliament, liable to have any activity, large or small, made the subject of Parliamentary question. The industrialist must be given time (measured often in a period of years) to show whether his project does or does not contain within it the seeds of success. Day-by-day Parliamentary scrutiny would be fatal to long-term efficiency.

Again, whether as part of a Government Department or not, a publicly-owned industry must be free from normal day-to-day Treasury control. Any necessity to secure Treasury approval in advance on detailed industrial plans would soon break the heart of the type of industrial organizer essential to the success of large-scale industry.

Clearly, if we are to hope to secure public enterprise, as distinct from publicly-owned stagnation, we must attempt to do this through the creation of Public Corporations free from short-term Parliamentary

and Treasury control. Obviously, the final control must rest with the owners, the State; and be exercised by some appropriate Minister of the Crown. Clearly that Minister will lay down in a general directive the sphere of the particular Corporation and the broad lines of policy to be followed in its operation, and the financial limits within which its total operations must rest. In this connection it would be most important that financial results should be measured on the same basis as in private industry; in particular, in relation to the capital employed. Any subsidy to either consumer or employee should be shown separately so that its cost and consequences can be assessed. As large issues of policy arise, these will be discussed, in Parliament if necessary, and this directive be modified or supplemented. Certainly there would be annual reports to the Minister, which would be available for discussion on special occasions in Parliament. But, for the rest, operation and management would rest with the Board of Directors of the Public Corporation, who would be judged on results. There is, in fact, to-day a fairly wide measure of acceptance for these views, but this is largely of very recent origin. Indeed, it did not appear to exist when the writing of this book began. Contrary views will undoubtedly be put forward when specific projects come under consideration, and it is probably worth while, therefore, to summarize these views rather dogmatically as I have done.

But we must now turn to further questions on which no such body of agreement can yet be claimed. Assuming we do agree to use the instrument of a Public Corporation, governed by a Board, how is that Board to be constituted?

It should not consist of a Board representative of "interests." It should consist of a group of individuals mainly selected as having the personal qualifications best fitted to make a success of the particular enterprise.

This point is very important. There will be suggestions, for example, that the new Board, in a particular case, shall consist of representative employers, trade unionists and consumers. This is entirely to misunderstand the functions of a Board of this kind. Employers as such, and as owners, cease to be interested. Individual employers, or individual directors of existing companies in the industry, may be very strong candidates; but in their capacity of trained industrial administrators. Trade unionists, as such, should not be considered. There is, for example, no better case for the nation's coal interests to be managed by the representatives of the miners than for the policy of the Bank of England to be determined by representatives of the bank clerks. It may well be that an individual miner or miners' trade union

official has personally the high qualifications required in an administrative job of this order. It is very much to be hoped that there will be such cases. There must be no suggestion of appointments on a class basis. But it must be recognized that the successful management of a large industry calls for outstanding qualities of character and intelligence, together with a training and experience not less exacting than that of the highest skilled profession. Candidates should be measured accordingly. It should be a rigid rule that appointments to government boards are on individual merit alone. We don't want to substitute, say, politics or trade union influence for nepotism or vested interest. Moreover, we don't want directors "representing" any group, whatever their abilities, because it is almost inevitable that such a representative will tend to become a delegate representing the average intelligence of his electors. Average intelligence in high responsible office will not serve Britain's needs.

This doesn't mean that there should not be the fullest provision for safeguarding the well-being of employees as such. There is exactly the same case for doing this in the case of industrial employees of the State as of any other industrial employees; but no greater case. There is no case whatever for a specially privileged position for State employees in relation to others. Indeed, if anything, the contrary, because in the nature of things their conditions, on balance, are likely to be better than those of employees generally. The instrument for safeguarding their interests will be the trade union. Indeed, if this were not so, there would no longer be a place for a trade union for employees directly or indirectly employed by the State: and that, surely, is not Labour's view of the future. It doesn't mean, either, that there should not be appropriate machinery for associating all those engaged in the industry with its operations, by keeping them informed on its problems, by enlisting their help in their solution, by seeking day-to-day adjustment of working relations. This is standard practice in well-managed private industry. It is, however, consultation through council and committee. It is not management.

Nor is the position met by a joint governing body composed of producers and consumers. In general, the former will be organized and will present organized views which will prevail. Even if the representatives of the consumer are in a majority they will be there as representative consumers, and, as such, will not be equipped to operate the industry at high efficiency. Administration and management are specialized jobs, to be performed by specialists, carefully selected, properly trained, and properly "briefed" as to the ends to be achieved. Again, this does not mean that there may not be a place

in certain cases for a Consumers' Consultative Council. That, however, is not an instrument of management.

On the other hand, this does not mean that the Board should consist wholly of technical experts drawn from the industry. That, clearly, would be wrong. Technical experts (of the right calibre) would themselves be the first to admit that intense concentration on a narrow range of technical problems leaves little time for consideration of wider issues highly relevant to the successful working of an industry as a whole. An expert has been defined as "one who knows more and more about less and less"! He should be balanced, in proper ratio, by men who know less and less about more and more. This is particularly true in so far as industries to be nationalized consist of those where drastic rehabilitation is necessary. Those engaged in such an industry may find it more difficult than outsiders to take a fresh and dispassionate view of the urgent measures necessary in the widest interests of the community.

Again, the directors should not be drawn from the regular Civil Service, as such. This does not mean that a particular Civil Servant should not be appointed on his individual qualifications. Indeed, where he has the qualifications such an appointment would be a very happy one, because he would bring to the new Corporation the high traditions of integrity of the British Civil Service, and, with his previous experience and contacts, he would greatly assist any necessary relations with Government Departments. He might, that is to say, serve as a bridge between industrial and Civil Service practice. But even in such case he should resign from the Civil Service and be treated, like the rest of his colleagues, as a full-time employee of the Corporation. This would be the general rule. It would not, of course, exclude the part-time attendance of a regular Civil Servant, as such, where the needs of the particular Corporation called for this direct liaison.

As I have said, it is easier to say what should not be done than to make detailed constructive proposals. Indeed, any such proposals could only rightly and usefully be made in relation to a particular Corporation or industry. Moreover, one's own views are necessarily coloured by one's own experience. I confess that my bias is all in favour of whole-time directors, living with the problems of their industry and identifying themselves with its successes and its failures. Indeed, it may be that part of such failure and inefficiency as British industry has shown (and this is often greatly over-stressed) is due to the outside part-time director. By this I mean not merely the director appointed because of his name or title or the business he may be expected to bring, but the really able administrator who gives only a



fraction of his really valuable time to an enterprise. It is perhaps not irrelevant to note in this connection that the characteristic enterprises mainly suggested as ripe for nationalization tend to be officered in this way. They tend to become bureaucracies, with the stiffness in the joints associated with bureaucracies. Often, the full-time trained industrial administrators or executives at a stage lower down have no contact, or no sufficient contact, with those who make the final decisions. These men should be represented on the Board itself.

Again, my own experience points to the value of a Board composed in large measure (though not necessarily entirely) of executive functional directors, each responsible for the whole of a single aspect of an enterprise (buying, production, marketing, selling, finance, personnel relations, and so on); as distinct from a single general manager under a non-executive Board. I would expect this form of organization to be more, and not less, necessary in a body dealing with the problems of a whole complex industry. At the same time it must be recognized that there is a risk that such full-time functional, or specialist, directors (dependent on their acceptability for their promotion and remuneration) may be more amenable to departmental control than part-time directors with outside foundations, and may gradually discover that it does not pay to be too enterprising. If so, we would be back at the old danger of a policy of "Safety First." They should, therefore, be strengthened by the presence of a strong chairman and deputy-chairman who could be relied upon to resist influences which they felt to be detrimental to the well-being of the enterprise.

As I have said, specific proposals should only be made in relation to a specific case; but I would somewhat diffidently put forward the following as a provisional approach to the appointment and composition of a Board of Directors of a Public Corporation:

(1) The Board should be appointed by the relevant Minister, after, of course, any necessary consultations and discussions.

(2) In general, the appointments should be on the sort of terms and conditions prevailing in the best industrial establishments to-day. Remuneration should compare not unfavourably with that ruling in industry for similar qualification. The appointments should not be for any fixed term. Only continued ability to carry the job should guarantee the holding of it. Pensions should be adequate; and there should be provisions permitting of change from one Public Corporation to another without loss of pension rights. Catholicity of experience is valuable in many jobs and should be encouraged.

(3) In general, appointments should be on a full-time basis. This should certainly apply to the Chairman and Deputy-Chairman, in the ordinary case.

(4) The Chairman should be a man not only of outstanding character and ability, but a man of the world with a wide experience of economic and industrial problems, preferably gained in other industries. This would be a safeguard against unduly narrow and specialist views, and against a possible undue measure of in-  
preceding. This, of course, like all other rules, would have its exceptions.

(5) The general body of directors would be selected from leading specialists in the industry, recognized not only as possessing outstanding knowledge, experience and ability in their own particular field but also as having the great quality of "open-mindedness" to new ideas and new developments. They would possess the full status of directors, but each would, in fact, be expected to advise upon, and, probably, to assume executive responsibility for, a particular broad function in the industry.

(6) In addition, there should be one or two directors drawn from a new and separate Industrial Civil Service operating probably as part of an Economic General Staff under a Minister of Industry. We will seek to develop this idea in a later chapter. Suffice to say now that such men would be whole-time civil servants of a new type but would serve part-time on the Boards of one or more Public Corporations. In this way we might hope to secure a valuable degree of co-ordination between the Minister finally responsible for the economic and financial policy of the Government as a whole and the different units engaged in the execution of this policy. Not only in this way would a channel be provided whereby the particular problems of the industry in question could be brought to the knowledge of the General Staff at the centre, but experience gained in one Public Corporation could readily be made available to others. Taking the military analogy, these part-time directors would be "staff"; their whole-time colleagues would be "line." I would agree that this presents difficulties in organization and responsibility. In particular, it would have to be made clear that the function of such directors was liaison. Authority would remain with the Board as a whole; subject only to a change in directive from the immediately responsible Minister on large issues of Government policy which the senior Minister might feel it necessary to take up with such other Minister. An alternative would, of course, be to secure such co-ordination through a part-time Chairman drawn from the

Industrial Civil Service. Two main objections to this, however, are first that it is difficult to see how this could be properly reconciled in practice with the full responsibility of the Board and its Minister; and secondly that we should lose the great advantage of a full-time Chairman identified fully with the success of the particular Corporation.

(7) As stated earlier, it would be a great advantage in practice to have at least one first-class regular Civil Servant on the Board. Such a man might well occupy the position of Secretary or "Treasurer." In such case, however, he would cease to be a Civil Servant (looking to the Treasury for pay and promotion) and become subject to the same conditions as his colleagues on the Board.

This, then, is a suggested approach to this difficult problem of the composition of the governing board of a Public Corporation. Such Board would be a board of executive directors charged with the duty of successfully managing the industry within the general limits of the directive given to them, and within the general financial limits laid down. Such Board would appoint such sub-boards and committees as circumstances required. In particular, it would be important that, either by dividing the industry regionally, or in some other way, there should be a means of comparing results achieved by different subordinate managements. In this way we might hope to secure a proper spirit of emulation, to take the place in some measure of the spirit of competition. Once a year the Board would make a public report to the responsible Minister for submission to Parliament. In this they would indicate the policy they were pursuing in what they believed to be the general interests of the community; and would submit their general budget for the forthcoming year and ask for general authority to expend capital within that budget. There would be opportunity for discussion, where necessary, in Parliament; and for any necessary revision of their directive and for any change in their composition. Subject to that, they would be authorized to continue their work for another year, very much in the same way as happens at a shareholders' annual meeting; with the difference that the shareholders in this case would be the community. For the rest, the aim would be to make possible the same flexibility, initiative, quick decision and willingness to take risks as are found in well-administered private enterprises.

It is not suggested that all this will be easy to achieve in practice. It will not be! I do suggest, however, that any other approach will

## PUBLIC ENTERPRISE

almost inevitably lead to red tape, timidity, ossification and loss of national competitive efficiency. I do feel also that the British genius (with its tolerance, goodwill, willingness to compromise and distrust of pure logic) is better fitted than any other to find the desirable *via media* in practice. As I have suggested before, it is easy to state the negative conclusions. The constructive detailed proposals must be found in day-to-day working.

## Chapter X

### THE STATE IN RELATION TO PRIVATE ENTERPRISE

BUT, whilst there is an important and, no doubt, growing field for Public Enterprise, for a long time to come the greater part of our economic activities are likely to be conducted by Private Enterprise. It is most important that the relationship of the State to these activities should be defined as clearly, and organized as effectively, as circumstances permit. Consideration of this is the main purpose of this enquiry.

First, let us be quite clear that Authority (represented to-day by the State) has inevitably a large part to play in relation to any form of private enterprise. Let us be clear, too, that this is no new thing in principle. It is a matter of degree, varying according to circumstances. I mention this because some people talk to-day as if any oversight of private enterprise were a new thing. This, of course, is not so. There were no doubt severe restrictions on private initiative under a tribal chief! There wasn't much free enterprise under the Feudal System! In the mediæval world the hand of the Church was heavy and the control of the Guilds was strict. It is true that the liberation of ideas typified by the French Revolution, side by side with the application of mechanical power to industry, did lead to a great freeing of previous restraints. There developed, in a real sense, a large measure of unrestricted private enterprise. It found its philosophy in the economic theory that the interests of the community would best be served by each individual being free to seek his own self-interest, with no regard, or precious little regard, for his fellows. We had the "Invisible Hand" working through the pursuit of self-interest. The pendulum swung wide away from the previous restraints of law and religion.

But soon it began to return. As the resulting evils became apparent, the remedies began to be applied. As we have seen, Factory and other Acts were passed, restricting employment of young children, limiting hours of work for different classes regarded as least able to protect themselves, and laying down minimum conditions of different kinds. Minimum wage legislation was introduced, first in a very limited form, but gradually increasing in its scope. Public assistance was replaced in measure by workmen's compensation and other pro-

vision, developing gradually into National Insurance on a widening scale. Food and Drugs Acts and other legislation came along safeguarding the innocent consumer against the less reputable manifestations of unrestricted private enterprise. All this has grown up so gradually and become so much a part of our life in this country that we sometimes do not realize the great extent to which private enterprise has ceased to be unrestricted. But all this is accepted. Few would wish to put the clock back in this respect. Indeed, we most of us accept the necessity for its further development, in the protection of the wage-earner as such and the consumer as such and in State provision for the citizen as such.

All this, however, is entirely consistent with freedom of enterprise in principle. It does not lay down what the enterpriser shall do. It provides for what he shall not do, or the stated conditions upon which he shall do whatever he wants to do. This largely negative function of the State is now generally accepted as necessary and, on the whole, desirable.

#### WIDENING SPHERE OF THE STATE

Steps like these tend, however, in turn, to lead to the necessity for still further steps. If the only alternative to work is really destitution, then the unemployed worker is compelled to take whatever employment he can get, at whatever remuneration he can secure, and wherever he can get it. The economic law of supply and demand could work, at whatever cost to the individual. But as a more enlightened social conscience refuses to accept the logic of this view and greater provision is made for the unemployed, an increasing and natural unwillingness develops to accept just whatever is offered. In consequence, the State is faced with a responsibility for the volume of employment in total, and in particular areas. The acceptance of this responsibility, in turn, means that the State becomes heavily involved in everything which affects the prosperity of industry. It is no longer simply the soldier guarding the State; the policeman guarding property and the person; the referee holding the ring; the Treasurer collecting the taxes; or, even, the factory inspector safeguarding the working conditions of whatever enterprise. It becomes concerned in the volume of enterprise, its success and its location. The Budget ceases to be a means simply of collecting taxes and becomes an instrument for stimulating industry, and, where necessary, of creating employment. Not merely tariffs but rates of exchange (depending, in turn, on the balance of foreign trade) come into the picture. Foreign relations are

directly affected in their economic aspect. Recommendations showing a far wider conception of the State's sphere come in non-part reports, such as the Barlow Report on the Location of Industry, the Scott Report on Land Utilization, and the Uthwatt Report on Compensation and Betterment.

This widening sphere of the State was inevitable even apart from wars. With the development of transport and communications, the world has been rapidly shrinking in size, and never so fast as in the last few years. Events anywhere in the world can now affect employment and its conditions here. If this were true of a world at peace, it is manifestly more so in a world shaken to its foundations by a second world war. Every industry is now directly and inevitably affected by State policy in a score of different fields. Apart from the most obvious strategic considerations, the State is now concerned with every industry. Britain must be fitted into the framework of the organized economic life of the world. Each industry in Britain must be adjusted to the economic background of Britain. In a world of Washington Agreements, Bretton Woods, Hot Springs, Dumbarton Oaks, and other sylvan manifestations, only the State (in the case at any rate of a debtor country like Britain) can assess certain situations and suggest the desirable course. These problems are beyond the capacity of private enterprise.

We are faced with something which is much more than the logical development of the Factory Acts. The State must provide the economic background. It must be concerned to see that industry is adjusted to that background. There must be some degree of Planning in some appropriate form.

#### THE PLACE OF THE INDIVIDUAL

It would, however, I submit, be disastrous if this Planning developed into Regimentation. Just as the State has its part to play, so has the individual. The State is, in theory, just the same set of individuals organized in a different way; but the way of organization is vital. Without the opportunity for "Merchant Adventurers," economic progress will lag. Without a widespread dispersion of responsibility and power of decision and spirit of emulation, the whole momentum of our economic life will be slowed. Without risk, there can be no achievement. Without the possibility of due economic independence, there cannot be real political freedom. We must find some means of reconciling State Planning with free enterprise. We must preserve the free adventuring spirit of man from the dominance of the State machine.

Sometimes the most trivial illustration can throw light on a matter of high principle. I have before me as I write a newspaper reference to a special Fire Area Order said to have been circulated to Fire Force commanders of the N.F.S. on the important subject of "Chimney weeping".

"Some doubt would appear to exist respecting the correct procedure concerning the above matter and this order is issued to clarify the position."

It goes on to state that when an officer considers it necessary for the chimney to be swept, he should obtain an estimate for the work and submit an application through the "usual channels" to the chief regional fire officer (accommodation) for the work to be done, indicating the cost involved. If the sweep's "tender" seems reasonable, the necessary authority will be given in writing; but, if it appears to be excessive, other estimates must be obtained. When the work is executed satisfactorily, payment will be made and the amount entered in the petty cash book. Then, in accordance with "Appendix 3, paragraph B. issued under F.A.O. number 99/45," the sweep must receipt the bill! This, when found correct, must be forwarded to the fire force commander's office with the regional accommodation officer's authority attached. When everything has been found in order, the petty cash float will be made up.

Quite a reasonable procedure? Certainly: what other procedure could a Civil Servant lay down? But consider if you can (because his imagination reels) what industry could be conducted on such terms! The payment to the sweep may be 2s. 6d. The staff time involved in the total operation (properly costed) would be many times his amount. In industry a man would not be given responsibility in such a matter unless he could be trusted. If this trust were found to be misplaced he would be sacked. It is as simple as that. It is a trivial instance: but one could give innumerable instances even in one's own experience. We simply cannot face the competitive industry of the world under an organization where such things are necessary.

But, to return to our theme, with apologies, the State must in any event perform those functions which industry cannot perform for itself. In addition to the more serious ones of securing national safety and national order, it must create the economic framework within which British industry must, and can, work. In addition to being concerned with working conditions, it must be concerned to see that there is work, and that conditions are such as to encourage work; that the total



of investment, private and public, is kept sufficiently large and sufficiently regular to enable employment to be maintained, and to be maintained at a high and increasing level of productivity; and that consumption is maintained by wise distribution of income.

To perform these functions effectively the State must consult industry. It must secure the expert advice of industry. It must inform industry not only as to its policies and aims, but as to the reasons behind these, so that intelligent co-operation may be possible. It must provide a free and ready means whereby industry can submit its own views. For this, organization is essential. The State cannot look to deal with a multitude of individuals on questions of policy: though it must consider individual cases in the application of policies.

Having formulated its policies, it must be concerned to satisfy itself that, in the broad, its policies are being followed by industry; and take any necessary action, and be in a position to take any necessary action, which the interests of the community demand when its policies are being flouted.

All this must be accepted as the proper sphere of the State to-day in relation to industry under private ownership. But, and this is the main burden of my thesis, subject to the best interests of the community being served and safeguarded in this way, it should leave the very maximum of freedom of enterprise and decision to the operators of industry. They must see to the sweeping of their own chimneys! The State, where circumstances warrant, should say what must not be done; it should make clear what it wants to be done; it should state the aims which should be achieved and the penalties if these aims are not achieved. But it should seek as far as ever possible to refrain from laying down just how those aims must be achieved. It should leave room always for the new and better way. It must seek to leave with an industry the largest measure of responsibility which that industry demonstrates in practice its capacity to carry. It can rightly say that new industrial enterprises are not to be "located" in a certain area. It can suggest the economic and social advantages of another area where employment is required. It can offer inducements to go there. But while industry is under private enterprise it should never say where an enterprise must go. When it directs decisions affecting the success of an enterprise, it has nationalized that enterprise, in fact, to that degree, whether it has done so in form or not.

So long as it is felt that a particular industry can best be conducted by private enterprise, just so long should decisions (within any general regulation laid down by law) be left to the judgment of those concerned, except where the best interests of the community clearly require

otherwise. The worst alternative of all—the one most inimical to enterprise and responsibility—is that under which permission must constantly be sought before any action can be taken. Let the still privately owned industries continue like the judges *quam diu se bene gesserint*—during good behaviour. Eliminate them if necessary; but in the meantime don't cramp their style. Let us clearly recognize the two alternatives, first, of State control and, secondly, of private enterprise under competition. Under the right conditions and if competition is really genuine, the latter, within wide limits, can be a very effective instrument for securing the right ends of the State! The "profit motive" can be regarded, even by critics, with a much more sympathetic eye if it is recognized as operating in practice (as, in fact, it largely does) as "the avoidance of loss motive"; that is to say, as a measuring rod, leading to a constant urge to reduce costs by increased efficiency. As Mr. Herbert Morrison said in a broadcast to the U.S.A.:

"There is only one justification for either nationalization or private ownership—that is, efficient service in the interest of the nation.

"If only nationalization will secure this result, then we must nationalize. But if private enterprise can do it, well, then let private enterprise remain. But it's got to be enterprise."

#### RESTRICTIONS ON ENTERPRISE

It has got to be enterprise; not private exploitation dressed up as enterprise; not restrictionism masquerading as competition. With that I entirely agree. Manufacturers have themselves sometimes to face price rings, whether private and *sub rosa*, or respectably backed by the State. They know their own attitude to these. They can recognize that the community as a whole is entitled to take the same attitude towards any similar practices by themselves. It is said that British industry to-day is honeycombed with price rings and price understandings, with suppression of patents and misuse of patent laws; and that inefficiency shelters behind this protection. The Tory Reform Committee in "Tools for the Next Job" say:

"Private enterprise was heading for a situation where it was decreasingly private and progressively less enterprising." If that is so, it is a serious and damning fact and it should be put right. But it should not condemn the industries where it is most clearly and emphatically untrue. Let us have the facts. I don't pretend to know them. It would be well that they should be obtained by thorough and

in an industry wanted protection, and a minority in number but a majority in volume (probably operating at a higher level of efficiency) did not. Conversely, there might be cases where a minority of large firms wanted authority to enforce restrictions and a majority of small firms wanted freedom. Each case would have to be considered on its merits, regard being had to the balance of view in the industry both in terms of number and volume. In any case, however, whatever the balance of view, the determining factor in decision would be the public interest, impartially examined.

Incidentally, the necessity for seeking approval in this way (with its necessary corollary of the possibility of wide and comprehensive investigation followed by continued subsequent supervision) might well lead to many industries deciding that the balance of advantage lay in freedom. The terms for protection might seem too severe. True enterprise with all the hazards of competition might seem the more attractive alternative; and the total field of true enterprise be widened in consequence.

In cases, however, where the views of the Ministry were sought on particular proposed arrangements, it would have four alternatives open to it. It could either—

- (1) express the opinion that they did not represent any unreasonable restraint of trade to which exception should be taken. There would be wisdom in the *de minimis* approach. A tolerant view might wisely be taken where restrictions might conceivably represent a technical breach, but be so small or limited as to be innocuous in practice. be free to go ahead;
- (2) express the opinion that they represented a breach of the law which could not be justified. breach of law, in
- (3) merely take notice of the breach. further
- (4) license the proposed arrangements for such time and under such conditions as might be laid down in the licence.

If the Ministry took an unfavourable view and the parties concerned did not accept its views, then appeal would lie to the Courts.

This approach may or may not be right in detail. All, however, that is essential to my immediate purpose, and what I would submit with some confidence, is that these questions of monopoly restrictive practice and restraint of trade generally

(1) cannot adequately be dealt with by a Tribunal or Court alone. The nature of the questions arising is such that they must be dealt with largely by continued and consistent action through the administrative machine of government ; but

(2) it would be wrong in principle and unwise in practice to leave to a Government Department the final interpretation of the law. The Courts must be available in the last resort to protect the subject against bureaucracy.

There must, therefore, be considerable delegation of administrative and discretionary powers, safeguarded always by the ultimate right of appeal to the Courts.

Assuming this broad view to be accepted, I return to my particular theme which is that whatever function the State may be performing in relation to industry (that is to say, in this as in any other connection) it should do it in such a way as to leave the maximum practicable room for enterprise. Following this line of thought I will set out in a following chapter how it would be possible in practice, even in this difficult relationship, to unite the technical knowledge of an industry with the supervisory powers of the State in such a way as still to retain adequate room for flexibility and initiative within the limits laid down by the State.

## PRICE FIXING

BUT, before we discuss in more detail the best organization for oversight of industry, let us try to clear the ground by consideration of one of the most difficult questions likely to arise in practice in connection with the matters we have just been considering, namely, what is "excessive competition," and, in turn, what minimum price would be a "fair price" to the consumer.

Under a *laissez faire* system of private enterprise there is, of course, no such thing as a "fair price." The price the consumer would expect to pay is the lowest price (irrespective of "fairness") which will produce the goods in the quantity and the quality desired at the moment. This may be a price which represents no more than a reasonably attractive return to the average efficient producer at the moment. It may, indeed, in the short run, be considerably less even than this! It may be so low as to make continued production unattractive even to the most efficient producer; or, even if acceptable to him, it may drive other higher cost producers out of business. This will not happen in a day. Businesses will struggle desperately to keep going. They will write down capital, and seek accommodation with creditors. When, ultimately, they do throw in their hands, some others will take them over, hoping to make good with the same plant by reason of their lower initial capital charges. The business of "capital consumption" can be a long-drawn-out process, painful even to the efficient firms and reducing their earnings to a point at which they, in turn, cannot fully maintain the progressive efficiency of their plant and provide for the long period research and development which the situation demands. Moreover, even the interests of the consumer himself may be prejudiced, as sources of supply gradually dry up. This can be true both of industry and of agriculture.

But even if the consumer's interests are still served by this process, and if the most efficient producers are content, we have still to look at the matter from a wider angle. There is the standpoint of the less efficient or higher cost producers themselves, who go out of business and whose capital is lost. There is the standpoint of their employees, who may suffer continued loss of earnings and ultimately face unemployment. There is, behind all this, the standpoint of the com-

munity as a whole. whole areas may become derelict, distressed populations may have to migrate, and masses of social capital be wasted in those areas. A vicious spiral of depression and unemployment may be set in motion with ever-widening effects. We must hesitate, therefore, before we always press the argument of the survival of the lowest cost producer to its logical conclusion. We must recognize that, however difficult to define, there may sometimes be circumstances in which competition may be "excessive," and call for some organized action to meet it.

On the other hand, we cannot contemplate for a moment minimum prices designed to maintain in business all firms in an industry irrespective of efficiency. That way lies stagnation and, if on a large enough scale, national decay.

Where a case is established, therefore, for some degree of minimum price fixing, we must give clear and careful thought to the basis upon which this is to be operated. The price cannot be based simply upon the figures of the highest cost producer nor upon those of the lowest. Equally, it is insufficient to talk about "costs of the producer of average efficiency." What are "costs"? Are they to be based on the *total* costs of more efficient producers or the *prime costs* of less efficient producers? What is "average"; and is the average cost too high to be acceptable to the community? It is difficult to suggest a formula generally applicable to all industries. Any minimum price should be related to a particular industry at a particular time; and then only on demand and on clear proof of its justification. But, in general, it would seem that the level to be chosen should be arrived at in the light of the whole range of costs of different producers. It should not be based on the costs of either the lowest or the highest cost producer but fixed at some intermediate point. Moreover, that point need not remain fixed. There is a great deal to be said, both in the interests of humanity and of common sense, for giving a breathing space for less efficient producers to increase their efficiency and so earn the right to survival. There might, for example, be a case for saying that any minimum price should for a certain period be based on the total costs of the producer three-quarters of the way up the scale from the lowest cost; and then, later, on the total costs of the producer one-half of the way up the scale. Alternatively, the price might be based on the prime costs of the producer somewhat higher up the scale of costs. In each case, of course, the volume of production at different cost levels must be taken into account as well as the number of producers. Half the production may be in the hands of 10 per cent of the producers.

The effect of such a fixed formula should be gradually and automatically to bring down the minimum price, as costs of producers remaining in business fall with increasing efficiency: until a point may be reached when the minimum price can now be dispensed with.

In granting any licences (on the lines discussed in the previous chapter) the Ministry should indicate, broadly, the basis to be taken in fixing any minimum prices.

The question still remains as to who should determine what exactly any such permitted minimum prices should be from time to time. Clearly it should not be left solely to the industry itself. That would be to throw too heavy a burden of responsibility, at any rate in normal times, on any elected industry committee, however high-minded; though such a committee might well be asked to operate a scheme once the formula had been laid down. It could be left to a Tribunal, but we have seen objections to that. It could be left to Government cost accountants. They would be disinterested and professionally able. But they would only rarely be acquainted with the detailed circumstances of the industry. On the one hand, therefore, they might fix prices on a basis which, while satisfying some central instruction on the subject, was not really adapted to the circumstances of the industry. On the other hand, they might find themselves at a disadvantage in dealing with facts and problems better known to those in the industry with whom they were negotiating than to themselves.

There may be no single best way, but the solution I will propose in the next chapter will be that of prices suggested by an expert committee in an industry, discussed jointly with independent Government experts who have come to have some substantial knowledge of the industry, and finally approved by appropriate Government authority in the light of its own experts' report.

## Chapter XII

### THE LINK WITH PRIVATE ENTERPRISE

LET us return now to the general argument as we left it in Chapter X. It was recognized that the State has a large part to play in providing by legislation certain minimum standards and conditions designed to safeguard all workers in their employment and in their unemployment, in their sickness and in their old age ; and certain minimum standards of quality or description designed in turn to protect the consumer against exploitation. These provisions will continue to be administered by the appropriate Government Departments. The law will be made and the law will be administered.

It was suggested, however, that in addition to this, and in addition to and apart from any responsibilities in connection with nationalized industries, the State should

- (1) provide the broad economic background for industries still under private enterprise ;

- (2) lay down the broad lines of national policy in relation to industry, and the aims to be achieved by industry (for example, guidance on wages policy and export policy, the necessity for efficiency and the obligations to employee and to consumer), setting out these aims possibly in a code of principles to be followed by industry ; and see to it that as far as possible conditions are such as to make the achievement of such aims possible ;

- (3) see that, broadly, these aims are being achieved in practice by industry.

It was submitted that the interests of the community might best be served by linking to the organizing power of the State, the driving force of free and genuine private enterprise ; by giving the greatest inducement for that enterprise to show itself ; by exercising any control in such a way as to leave the greatest room for initiative and flexibility ; by leaving a large measure of freedom to those industries which show themselves willing to serve the national ends.

We must now finally consider the organization best fitted to secure these ends.



## THE CONCLUSION

### ON THE SIDE OF GOVERNMENT

Clearly, the first thing is that Government itself should be properly organized. Ideally there should be one Government Department in which private industry can look for direction and guidance on these broad questions of policy. This is not to say that there should not be Ministries of Labour, of Health, of Social Insurance, and so on. It is not to deny that the Treasury must continue to deal with national financial policy. It is not to suggest that there is not an important part to be played by the Ministry of Food in its sphere. It is submitted however, that as far as possible, both in its own interests and in fairness to industry, the State should have one main Department which would act (as in some measure the Board of Trade does now)—

(1) as a clearing house within the Government organization for problems affecting all private industry; and

(2) as the sole, or main, link with private industry on the Government side.

What is visualized is a Ministry of Industry. It might possibly be founded upon the Board of Trade and absorb some of its functions. For our purpose, its main functions would be to advise industry as to the policy and aims of the Government in relation to industry; to see that these aims were being achieved; and to take any necessary action when they were not.

### AN INDUSTRIAL CIVIL SERVICE

For this purpose it would be essential that the Ministry (or the section of it performing these functions) should be largely staffed with a new class of industrial civil servant, possessing the same high integrity as the Civil Service proper, and, so far as possible, no less ability, but, in addition, and as an essential pre-requisite, possessing also knowledge of industry which would enable those concerned to talk the language of industry, to understand its problems, and to deal with its shortcomings on not less than level terms. I hope I have made it abundantly clear how high a regard I have for the British Civil Service. But this is a specialist job. We have attached to the Civil Service scientists, engineers, lawyers and accountants. We do not ask the ordinary Civil Servant to deal with these specialized subjects. The profession of industrial administrator is equally a specialist job in its own way. This doesn't mean we don't want scientists, lawyers, accountants and cost accountants in such a Department; but they should possess

a previous practical experience of industry. Nothing less will do for this purpose. Above all, as a central core, we need men who have won distinction in industry itself and who would be correspondingly respected by industry. Such men could, no doubt, be found who would be willing to transfer their abilities to the service of the State provided they were offered suitable conditions of remuneration and status. Many such have given their services during the war. It would be a condition of their employment that they should sever connection with industry. From such a staff would be drawn part-time directors to serve on Public Corporations as suggested in the chapter on that subject. From the same staff would be drawn the Government representation to serve on the bodies mentioned later in this chapter.

This is not to say that these industrial civil servants would be outside of the Governmental machine, any more than is the case with scientists in Government service. The Ministry would have a backbone of first-class permanent Civil Servants, with their knowledge of Government administration and Parliamentary procedure. The contacts with industry would normally, however, be through the industrial civil servant, or the Civil Servant become industrial civil servant. Their duties are suggested in more detail later.

Without some such provision, any marriage of the State with industry is foredoomed to failure. After considerable experience, I am convinced of that beyond all question. Policies alone, however soundly based, will fail without the right instruments. In their absence, either industry will be hedged round with restrictions which will destroy initiative and drive; or, perforce, we shall run the risk of a "self-government of industry" which will not best serve the interests of the community. Either we must have real knowledge available or face "bureaucratic timidity." Readers who would like to consider an even more emphatic expression of view on this subject are referred to Mr. G. D. H. Cole in, *Can Planning be Democratic?*\*

#### ON THE SIDE OF INDUSTRY

The link on the Government side would, therefore, be a Ministry of Industry with an adequate staff of industrial civil servants. What of the side of industry?

Clearly, each industry, or each homogeneous unit of industrial activity, should have some suitable organization, or organizations, to act on its behalf. The Government cannot be expected to consult with individual businesses on matters of broad industrial policy. But at this point we must draw a broad distinction between, on the one hand,

\* Routledge. 6s. net.

(1) those industries which are, in fact, normally organized broadly on a basis of free competition ; which do, in fact, represent free enterprise ; where the interests of the consumer are, in fact, normally safeguarded by competition ; and which do not, in fact, seek to impose any monopoly restrictions ; and, on the other hand,

(2) those industries which, for whatever reason, however good, do impose or do seek powers to impose, restrictions on what they regard as " excessive competition " ; or where, for whatever reason, it cannot be taken for granted that the consumer's interests are adequately safeguarded ; and

(3) as a separate case, those industries (whether falling within (1) or (2)) where the Government find it necessary for the time being to exercise a degree of control arising quite independently of the wishes or views of the industry concerned. By this, I mean industries, for example, where by reason of a shortage of a main raw material, the Government finds itself compelled in the interest of the consumer, or of equity as amongst the producers concerned or both, to exercise control over allocation of raw materials or finished products, together, probably, with controls over price and other matters : in short, cases where circumstances commonly found in wartime do in fact continue in peacetime to such an extent that some form of continued Government control is for the time being necessary.

Clearly cases (2) and (3) can be sharply distinguished. Case (2) arises out of the desires of the industry for certain controls, whereas in case (3) the industry may desire nothing more urgently than freedom from all controls and restrictions at the earliest possible moment ! Case (2) may be a permanent or quasi-permanent control, while case (3) may be entirely temporary, until some external condition of shortage is removed. What they have in common, and what distinguishes them from case (1), is that some form of public control is for the time being necessary. We have to look at them together, therefore, and distinguish them from case (1), simply in terms of organization in relation to the State. Clearly, this is no reflection on those engaged in industries falling under this case (3).

Equally, in parenthesis, let me make it clear that in making this broad distinction between cases (1) and (2), I must not be taken as suggesting that the former are " good " and the latter " bad " ! It is a practical and not a moral distinction. The former may, indeed, be competitive against their wishes ! The latter may have a perfectly

sound case for wanting restrictive action. Only knowledge of all the circumstances of a particular case could justify any moral judgment. In a great many cases, no doubt, it would be a case of, "*Tout comprendre, c'est tout pardonner.*" It just happens that my experience has fallen in the former category. It might well have lain in the latter; and in the particular circumstances, I might well have justified some degree of restriction and still felt a very good servant of the community.

The distinction is, however, of major importance in relationship to the State, and in terms of organization. What is to be condemned is not necessarily some degree of restriction, nor indeed of monopoly. What is to be condemned is such degree as to be contrary to the interests of the community; that is to say, in fact, anti-social. Moreover, the important thing is that the action taken or proposed to be taken should be such as can be justified to the representatives of the community, and should be exercised under the supervision of the community through its chosen instruments. The question is not whether such industries as such should be controlled, but whether action and practices in those industries capable of being anti-social in their effects should be controlled. It is not control of industry but control of restrictive practices.

#### TRADE ASSOCIATIONS

All this discussion is relevant to our particular theme of the organization of the relations between the State and private enterprise. In this, as we have said, we must distinguish clearly between those industries where enterprise is free and the safeguard to the consumer is free competition, and those where (for whatever reason) enterprise is in some greater or less degree restricted and where other safeguards are therefore called for. In the former case all we need is organization for liaison. In the latter, we require organization for supervision, and in some greater or less extent, for control. In the former we need an organization designed simply for consultation or for voluntary co-operative action or the joint provision of services, which, for the sake of clarity, we may describe here as an "Association." In the latter we need an organization designed to exercise effective control of certain activities within an industry; which here we will refer to as a "Board."

Every industry should have an appropriate consultative Association, which would be a flexible body, working on very much the same lines as hundreds of Trade Associations at the present time.

The Trade Association (as distinct from the Board) would generally be, or be founded upon, the existing body of this nature in the industry.

## THE CONCLUSIONS

Membership (as the F.B.I. recommend) would be voluntary, and (provided that inspection of its Rules or Articles, and any other necessary investigation, showed that its objects were not in any way contrary to law or to public policy) it would be accepted by the State as the officially recognized organ of consultation on behalf of the industry. Membership would be open to any business or firm in the industry. The State would only be concerned to see that in fact it was so organized as to be, or be capable of being, broadly representative of the volume of activity within the industry. The only penalty of non-membership would be a certain loss of information, and a loss of opportunity to influence the officially stated views of the industry, together with the loss of the benefit of any services provided by the Association.

In general, such a body might cover such functions as these:

(1) To act as the official channel of communication between the industry and the Government on any matter affecting the industry.

(2) To represent the views of the industry in this or in other relations.

(3) To collect statistics and promote the interchange of information between members.

(4) To establish efficient and uniform methods of costing throughout the industry.

(5) To promote the development of export trade.

(6) To encourage individual, and promote co-operative, research.

(7) To promote the technical and general knowledge of those engaged in the industry.

(8) To assist in the general improvement of quality and/or design and to promote where suitable a due degree of standardization.

(9) To establish a purely voluntary standard code of principles and practice for the guidance of members in their relations with one another and with their employees and with those from whom they buy and to whom they sell.

It might be found advisable for a Government representative to attend meetings, when necessary, to explain the Government point of view and to ascertain in detail the views of the Association on specific issues related to Government policy. It might also be an advantage for a specific member of the industrial civil service of the Ministry of Industry to be nominated as the standing representative for such purpose: but even when he attended it would be for liaison purposes only. There would be no question of his consent being necessary for

decisions, or of any sort of control being exercised by him on behalf of his Department. The Association would be a voluntary Association in the fullest sense.

These Associations would be associated or federated with one another in the way found most suitable; and means would be devised for securing a due expression of their views on broad issues of industrial policy through a national body like the Federation of British Industries.

### INDUSTRIAL BOARDS

There is, of course, nothing very novel in these suggestions about Trade Associations as such (except as regards Government liaison). They represent common practice in many industries. Any novelty lies in the use of what, for the sake of contradistinction, I have called 'Boards.' What I suggest is that where (a) the Government decide that a case has been established by an industry for the exercise within the industry of certain restrictive functions or powers of a character such as I have previously described and that such must be exercised under supervision of public authority, or (b) the Government finds itself, for whatever reason, driven to exercise certain controls on a particular industry, the normal instrument for this purpose in either case should be an Industrial Board. This would be operated in peacetime on somewhat similar lines to the Wartime Associations described in Chapter VII. In other words, instead of government by external legal Orders and/or by intermittent supervision by some Tribunal, I would suggest a permanent Industrial Board, authorized to exercise certain specified powers, and/or to perform certain specified functions, within the limits of the licence granted or directive issued, and subject to the principles laid down in such licence or in separate directives.

This Board would consist in the main of leading representatives of the industry, and be staffed by, in effect, a "technical civil service" which might be largely drawn from the industry. It would perform functions on behalf of the industry as well as represent the views of the industry. It would, therefore, be self-government. It should, therefore, have flexibility, and capacity for quick and instructed action. But it would be supervised self-government. This is the vital distinction. It would be supported so long, and only so long and so far, as it operated within the sphere and subject to the principles laid down by Government.

Supervision would be secured in this way, namely, that the State would be represented on the Board by one or more nominated representatives, with power to take back any decision to the Ministry for

further consideration and meantime, in so far as necessary, to override any decision felt to be outside its authority or contrary to public policy or in conflict with the aims and principles laid down by the State.

Whether such Boards should include trade union representatives is a matter for consideration. At first sight I should think not. In the organized industries there would be likely to be National Joint Industrial Councils capable of discussing economic proposals affecting employees in the industry in a far more effective way than could be done by one or two trade union representatives on such a Board. In the unorganized or less organized industries there would be further difficulties in securing due and effective representation for the labour point of view. In short, whilst the employees' concern in the industry would be fully recognized, it could, and no doubt would, be better met by other machinery covering the industry as a whole, as distinct from the particular and possibly limited aspects covered by such a Board.

As to representation of consumers on such a Board, I doubt whether this is practical politics. Apart from anything else, there is always the prime difficulty of finding "representative consumers." Their interests would be one of the prime concerns of the appointed representatives of the State.

In the case of these Boards (as distinct from Trade Associations) membership would be compulsory; and the constitution would have to be carefully framed to the satisfaction of the State so as to secure due representation of all the different interests of the industry.

Whilst such Boards are proposed mainly for the exercise under supervision of such restrictive action desired by the industry as may be approved by the State, and our arguments are mainly addressed to this aspect, the same organizational approach, as we have seen, could obviously be made in other cases. For example, a Wartime Association such as I have described in Chapter VII could be continued as a Peacetime Association to the extent only and for such time only as shortage, or other special conditions, justified this.

I would hope that the general case for this proposal for Industrial Boards would appear from consideration of the experience outlined in Chapter VII (paralleled no doubt in other similar directions). Briefly, however, the reasoning behind it is this:

(1). No industry can properly claim to exercise monopoly powers, restrictive of the freedom of those in the industry, or of potential entrants to the industry, or capable, by eliminating competition, of operating to the serious prejudice of consumers or to the detriment

of the community, except with the knowledge and approval of the State.

(2) At the same time, there are no doubt cases where such powers, within limits appropriate to the circumstances, are justified and should be approved.

(3) If, however, such powers were to be granted once and for all, the safeguards which would have to be inserted would be so many and so strictly framed as to be likely to make for rigidity, and for a degree of ossification in the industry which would be detrimental to proper initiative and enterprise.

(4) Moreover, if the matter were dealt with by Order in this way, it would offer an inducement to the less scrupulous members of the industry to find ways and means of defeating the spirit of the safeguards without contravening the letter.

(5) The majority of industrialists are men of integrity, quite as anxious as any other class in the community to serve the best interests of the community. They include in their ranks experts better capable of framing the necessary rules and of administering them in practice than any outside expert unfamiliar with the facts and the personalities in the industry (the latter a most important matter). The co-operation of these experts should, therefore, be enlisted to the full. They should be made to feel that they are, in due measure, acting as, in effect, the technical civil servants of the State, using, in an honourable capacity, their full professional skill at one and the same time for the benefit of their industry and the community as a whole.

(6) At the same time the State should be directly and intimately associated with the operations of the industry in this connection through representatives drawn from the Industrial Civil Service, acting as regular members of the Industrial Board, and with a right to an overriding vote. Through their continued membership they would, in time, develop an intimate knowledge of the affairs of the industry. This, in turn, would make for quick decision and smooth and harmonious operation. Their continued presence would at the same time permit of a degree of discretion and judgment being left to the Board which would not otherwise be possible.

(7) A consequential advantage to the State would lie in an increasingly intimate knowledge of the operations of those industries which, *ex hypothesi*, called for supervision by the State, at any rate in particular aspects.

(8) The advantage to the industry would lie in the knowledge of that understanding of their real problems, and in the facility for



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obtaining guidance and assistance and quick decisions where these were called for.

I believe that some such approach as this is entirely consistent with the British genius for compromise, flexibility and power of adaptation.

I believe that in the great majority of cases, if the opportunity be offered, and the appeal be made, for a spirit of statesmanship from British industry, that spirit of industrial statesmanship will be forthcoming. Again, I speak from proved experience. It is true that many industries would prefer not to have such Boards. The answer to this is that, under my proposal, they need not have them! The suggestion is not that every industry should have a Board, but only that any industry desiring to introduce, or to maintain, controls which represent a departure from true private enterprise to an extent capable of prejudicing the public interest should have such a Board; and even then only to the extent of such departure. As I have said it might well be that the effect of this proposal on the minds of those in some industries where restrictions now exist would be to restore full freedom as a means of avoiding such necessity. Freedom of choice would remain with the industry.

In brief, I would give every inducement to industries to conduct their affairs (within the law and the broad framework of Government policy and in the light of any codes of principles laid down by the State) in the true spirit of private enterprise, with all the advantages of initiative and adaptability associated with it, and with all due regard to the interests of consumers and the community. So long as they did so they would enjoy freedom from any detailed administrative control. Apart from the administration of the law, the State's functions would be confined to satisfying itself, as necessary, that the industry was in fact giving (in Mr. Morrison's words) "efficient service in the interests of the nation." In face of this inducement I would hope for a disappearance of restrictive conditions where they were not capable of full public justification.

To summarize: I would refuse to allow effect to be given to restrictive practices in an industry calculated to deprive the consumer of the safeguard of competition except with the prior knowledge and consent of the State. Where approval was sought and granted I would make it conditional upon the setting up of a Board upon which the State would be represented, with full right to ascertain how any restrictive powers were being used and with full power to control such use. Reports on every such Board would be made periodically by the Government representatives to the Ministry of Industry; and an Annual Report on

all such Boards would be laid before Parliament for discussion and any necessary action.

Along these lines I would hope—

(1) to combine the organizing power of the State with the spirit of adventure in private enterprise ;

(2) to protect the consumer against exploitation without putting industry into a strait-waistcoat ;

(3) to secure the ends of the State with a minimum of bureaucracy and regimentation ;

(4) to lead industrialists, in their vitally important work, to regard the State as a senior partner whose help can be sought when conditions warrant, rather than as a critical, uninformed and hostile agency ;

(5) to make the industrialist feel that he is a trusted and valued member of society ;

(6) to create, in short, a real and full sense of partnership in the great task of fitting British industry to meet Britain's needs.

No one can say in advance that development along these lines will in fact succeed ; but, at least, it is in harmony with the British genius ; and, at least, it is worth the attempt.

## Chapter XI

### SUMMARY

THERE are various ways in which the writing of a book of this kind can be approached. One is to state one's conclusions baldly at the outset, and then proceed to marshal facts and arguments in support of those conclusions. This has, at least, the advantage that the reader is clear from the outset just exactly what is proposed. Another is to state the facts, then to analyse them, and then to examine the various alternative policies open to us, stage by stage, accepting one and rejecting another, until, by a process of elucidation, we are led to certain conclusions. This is the scientific approach. It is the approach best calculated to avoid bias and preconceived views on the part of the writer. It is the approach which the reader who claims no expert knowledge of the subject should find most convincing.

At any time I prefer this latter approach, and for these reasons. But, in fact, in this case I had no alternative. This book represents no careful full-time piece of research made in the quiet of the study. I wish that had been possible: the work might then have been better done, and the field covered would certainly have been wider. In fact, however, this book represents rather the notes from the diary of an executive, written *in medias res* while actually engaged in grappling day by day, with the problems discussed. To take another analogy, it represents, not the views of the engineer-designer in the quiet of the drawing office, but the log of the working engineer in the ship's engine room, written in the intervals of oiling overheated bearings and with the sound of the sea. Actually it has been written over the period of 1941-45, at such odd times as pressure of work has permitted. In one case an interval of fourteen months elapsed between two consecutive chapters! Incidentally, this long period of gestation may perhaps in some measure excuse any lack of freshness there may be in certain ideas expressed which, if not quite new, were certainly fresh and debatable when first written, but have since been more widely accepted.

In these circumstances there was clearly no alternative but to begin at the beginning, and to be carried where the argument led. I don't mean by this that I had no unifying idea in mind when I sat down to write. Every investigator, however impartial he may wish his investigation to be, must begin with some provisional thesis in mind. Mine, I

## SUMMARY

think, was simply this, that I had had a main responsibility for initiating as a Civil Servant, with the encouragement of Lord Woolton, an experiment in relationship between the State and industry in wartime. This experiment, as a result of the fine response of the industry concerned, had proved most successful. My Minister had referred to it as an outstanding achievement in supervised self-government. We had builded better than we knew. Our experiment had been widely followed in wartime. I couldn't help wondering, therefore, whether, in other industries and in other circumstances, the same approach might not be useful in peacetime. That was my starting point. Such thinking as I have had opportunity to give to the matter has confirmed and strengthened this early view. I think that, as a piece of organization, this arrangement for the marriage of State and Industry through a representative manufacturers' organization with State representation and with State power of final decision within a specific field, may be capable of making a very useful contribution in the years to come. I put the idea forward, therefore, as a main part of my proposals, for consideration on its merits.

I have deliberately sought to limit my consideration as far as possible to the question of organization of the relationship of the State to Industry, and to eschew questions of policy, except in so far as their discussion was unavoidable. I have expressed no views, for example, as to which industries should be nationalized, but I have suggested suitable organization for industries which are to be nationalized. I have not ventured any opinion as to which industries call for closer State supervision because of restrictive practices ; but I have said that, where there is a case for this, certain machinery is best calculated to secure essential supervision with least detriment to enterprise. I would expect the industry with which I am connected to choose to continue the alternative of free enterprise in freedom ; and to be able to demonstrate that, in the fullest sense, it has done its duty to the consumer. But I speak in no sense on behalf of that industry, which has, in fact, been in no way consulted about the views I express. These views must stand or fall on their merits. Meantime they are my own personal views and should (as I said at the outset) be in no way regarded as representing those of either any particular industry with which I may be connected or any company of which I may be a director. I must be the sole target for any criticism.

I do realize, however, that my chosen method of approach may have left some readers in doubt as to the precise views to which I have been so far led in this enquiry. It would seem desirable, therefore, even at the cost of some repetition, to attempt to summarize those views now.

## THE CONCLUSIONS

(1) *Salus reipublicæ suprema lex.* Any industry, whatever its nature or form, and whether publicly or privately owned, must seek to serve the highest interests of the community as a whole; its achievements must be measured in relation to its broad success and it must be content to accept that standard.

(2) The State must represent the community as the organ of the democratically elected Government of the day, and within the framework of the law.

(3) The State must safeguard the proper interests of the producer. Production comes before distribution. The cake must be baked before it can be divided. In particular, the State will continue to lay down minimum standards (on a progressively rising scale) for the worker to be observed by all industries, or by all enterprises in specified industries, as the case may be.

(4) While, however, the State is rightly concerned to lay down minimum conditions for producers, its view must not be narrowed to that issue alone. It must consider the well-being of producers of all classes; that is to say, not only the rank and file but the technicians, the managers, the administrators; and in particular that very limited number in any community who possess creative ability, imagination, vision, courage and drive: in brief, those who, in fact, under any organization of society determine the level of efficiency and the rate of progress.

(5) While safeguarding, therefore, producers who need it against exploitation, the State must provide conditions which make for a maximum of enterprise, whether ownership for the time being in any particular case be public or private. The State must seek, as one of its absolutely primary objects, to liberate constructive ability.

(6) But production is not an end in itself; it is a means to an end. Production leads to consumption. The State must see that the consumer is safeguarded against harm or exploitation in regard to such matters as quality of goods or purity of foods, by the laying down by law of minimum standards when these are shown to be necessary particularly in matters where the consumer cannot be expected to possess the necessary expert knowledge to protect himself. In the same way, the unorganized consumer should be protected against price exploitation where and while this is necessary owing to the absence of freely competitive supplies of suitable products.

(7) Again, however, the State should confine itself to minima. It should set minimum standards but it should not compel standardization of products. All progress depends upon improvement upon existing standards. A minimum standard permits of progress. Standardiza-

tion leads to dull mediocrity and the removal of all incentive to creative ability. Standardization of products in this sense (as distinct, of course, from, for example, reasonable standardization of sizes of parts in engineering) is, in fact, nationalization without any of the virtues of nationalization.

(8) But when we have dealt with producers and consumers we have not covered the full interests of the community. We have dealt with individuals in their material aspects. We have still to consider them in their most vital aspect as human beings and as citizens. Without vision the people perish. Without true democracy, we may become a human ant-hill. Without freedom, we face totalitarianism. We must seek so to construct our society as to leave full room for freedom in its best sense.

(9) In the economic field, our normal aim should be to seek the means best calculated to secure efficiency and enterprise. If in a particular case the facts lead us to the conclusion that this will be best achieved by Public Enterprise, let us accept this. Let us, however, seek to achieve this in such a way as to decrease freedom as little as possible. Let us recognize that, the wider the sphere of State enterprise, the greater the difficulty in practice of securing full freedom in certain vital directions. With widespread nationalization, it becomes very difficult to avoid some degree of regimentation. One of the most valued of our freedoms is freedom of association. That is the basis of Trade Unionism. It is difficult to see how universal nationalization could leave a place for Trade Unionism except in name. An inherent freedom lies in choice of occupation and of job. It is difficult to see how universal nationalization could exist in practice (in a country whose price level is linked with that of the rest of the world and which is dependent for its existence on export trade) without direction of labour. Let us therefore accept nationalization where this seems the better alternative; but let us recognize that in so far as we can safeguard the proper interests of producers and consumers in a system of enterprise which leaves freedom of association and freedom of choice, we shall, by so doing, best serve our highest interests as citizens. In short, outside of certain particular activities, nationalization may be not so much an ideal as a regrettable necessity, with real danger to the spirit of man. For this view we are not dependent upon *a priori* reasoning. We can see the results in practice in other countries.

(10) There will be a large and increasing sphere of State activity in formulating and enforcing the minimum conditions already mentioned. There will be, in addition, a large and vitally important sphere of

State activity in providing the economic background for all industrial enterprise. This will arise, in particular, out of the policy of Full Employment; in conjunction with the greatly weakened position of Britain in terms of international balance of payments. All these will be dealt with by our admirable permanent Civil Service. The formulation of policies to secure the adjustment of British industry to this background without drying up the springs of enterprise will present the most formidable problems. They are, however, beyond my present purpose, which is concerned with organization.

(11) In addition to performing these background functions, the State will, however, feel called upon to nationalize at any rate certain British industries; that is to say, to go beyond what has in the past in this country been regarded as the proper sphere of the State, and to undertake the actual operation of industries. The necessity for this in certain cases can be accepted. It is submitted, however, that there is a wide distinction between activities which, however varied, are in fact an exercise of government as such, and on the other hand the actual conduct of industry. For the former we have an admirable and admirably staffed Government machine. For the latter we must, I submit, break new ground. We must have a new approach. It would be fatal to attempt to run any ordinary industry as, or as part of, a Government Department, for reasons which I have fully stated. We should seek to avoid as far as possible the evils of "bureaucracy" by running any such industry as a Public Corporation, under a Board of Directors acting as nearly as circumstances permit, not as Civil Servants (as usually understood) but in the same way as the Board of a non-public enterprise. Directors should, in the main, be appointed for their personal capacity to run industry successfully. While the State would be the ultimate shareholder, the greatest practicable degree of freedom should be extended to the Board, within certain broad directions as to aims and principles, and within certain broad budgets of capital expenditure. Day-to-day Parliamentary control and detailed Treasury control would be fatal to efficiency. Control should be remote though real: failure would be dealt with by the normal method of change of directors.

(12) For long enough, however, by far the greater part of our industrial activity will continue under private ownership. It is in the vital interests of the community that the greatest practicable degree of efficiency and enterprise should be achieved in this field. The State should not seem merely to tolerate this private enterprise, but should accept it as its co-partner in the task of restoring the resources of Britain, and in raising the standard of life of its people. So long

as an industry displays genuine free enterprise, with proper consideration for its employees and the consumer (and subject only to overriding conditions arising out of the aftermath of war) it should be given the largest practicable measure of freedom. Development should be encouraged. Under such conditions profits should be regarded as a test of success and a measure of contribution to the State.

(13) If, however, freedom is to be the reward for free enterprise (rendering efficient service to the nation) clearly the State must have the right and the means to satisfy itself that in any particular case it is free enterprise of this nature, and not private exploitation dressed up as enterprise. If the State is to be asked to allow private enterprise to play the game within the rules, it can claim the right to lay down the rules and to nominate the referee!

(14) The old common law doctrine of "restraint of trade" should be more clearly defined in new legislation and the hands of the State be strengthened. The basic principle would be that no arrangement should be permitted which constituted an effective bar to competition in an industry generally, except to the extent that this could be publicly defended as being in the public interests; and then only subject to appropriate conditions ensuring effective supervision. An appropriate department of State would be charged with responsibility for seeing that the law was observed. Such Department would have authority to license arrangements by industrial bodies which would otherwise be in breach of the law, on such conditions as might be laid down in the licence. Appeal would lie to the Courts from such a Department's decisions.

(15) Such a view of the functions of the State would mean the setting up of a Ministry of Industry, or its equivalent, designed on the one hand to advise industries of the general economic background, and of the policies which, in the view of the Government, appeared to be called for, and to encourage and assist industries to make the fullest and most efficient contribution; and, on the other hand, to oversee restrictive practices which appeared to be contrary to the interests of the community. It would not be its business to control industry (except in such degree as emergency conditions made this necessary for the time being) but to oversee restrictive practices.

(16) It would be essential to the success of such a Department that it should be staffed with a special class of industrial civil servants, skilled in industrial administration, disinterested but capable of understanding the problems of industry, speaking its language, and able to meet industrial administrators on level terms.



(17) Industries which were operating without any of the inhibited restrictive arrangements and were pursuing a policy fully consistent with the interests of the community, would be free of any controls other than those arising under the general provisions of the law. That would be their reward, and the inducement to other industries to decide to do likewise.

(18) Each industry should have a Trade Association of a voluntary character. Such an Association, formed with objects that were not in any way contrary to law or public policy, would be accepted as the representative body of the industry and regarded as the official channel of communication with the State. A suitable liaison officer would attend its meetings when necessary, on request, to facilitate exchange of views. Such Associations would be federated into a suitable National Association.

(19) Where, however, an industry is licensed by the State to exercise certain powers of a restrictive character (whether arising out of a request from the industry to limit excessive competition or arising out of conditions external to the industry such as a temporary shortage of a main raw material) it should be a condition of such licence that these powers should be exercised through an Industrial Board created for the purpose and according to principles laid down by the State; that is to say, somewhat on the lines applicable to War-time Associations. Such Board would be composed mainly of the experienced representatives of industry, and staffed by a technical civil service drawn from the industry. But it would include one or more representatives of the State drawn from the industrial civil service of the Ministry of Industry. These State representatives would be entitled to an overriding vote, and charged with the responsibility for seeing that the powers of the Board were exercised in accordance with the principles laid down and with due regard to the interests of the community. In short, it would be constitutional Freedom subject to Veto. Such State representatives would report to the Ministry from time to time; and the Minister would, in turn, report annually to Parliament. Provision would be made for full investigation, where necessary, in the particular field, and for publication (under code numbers) of suitable facts and figures. In the case of minimum prices, these might show, for example, the range of costs and profits of producers.

(20) It is submitted that where a case is established for limitations on freedom of competition in an industry, or for some degree of monopoly or other circumstances necessitating State control of such

industry, such method is best calculated to secure this end in a way which

(a) will permit of a maximum of flexibility of operation in the industry ;

(b) will secure a maximum of co-operation between the State and industry ; and

(c) will offer in practice the most effective method of control to the State.

(21) It would secure the advantages of "self-government of industry" ; but it would at the same time introduce the means best calculated to secure that this was "supervised self-government" under which the best interests of the community could most effectively be safeguarded.

The proposals I have made are based upon proved war experience. I have sought to draw on this war experience in an approach to peace-time problems. I believe it is consistent with the British genius to advance in this way. I have given the proposals themselves some degree of precision so as to bring out the real nature of the issues arising. At the same time, I have tried to make it clear that what I am offering is a sketch rather than a blue-print. No one is more conscious than I that particular proposals must be tested in practice, and must be modified in the light of experience.

But whatever view be taken of any particular proposal, I am confident of the soundness of the main theme. This is that we shall only build the better Britain we all desire if we seek, at one and the same time, Social Justice and Freedom, Equity and Efficiency ; through a real partnership of the State and the individual, based upon the recognition that, whatever our forms of organization, it is vital that we put Enterprise First.

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